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Docket No. E-00000A-09-0066

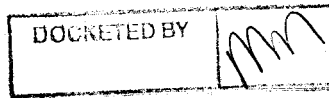
October 8, 2009

Arizona Corporation Commission

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Phoenix, Arizona 85007



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Subject: Docket No. E-00000A-09-0066
Final Report of the Finance Subcommittee
Renewable Energy Transmission Task Force

To Whom It May Concern:

The Finance Subcommittee of the Renewable Energy Transmission Task Force ("RTTF"), which itself is a task force of the Southwest Area Transmission Study Group ("SWAT"), was created on January 8, 2009. This subcommittee was directed to investigate and recommend to the RTTF and SWAT, methods for financing renewable transmission projects in Arizona, as was contemplated by the Arizona Corporation Commission ("Commission") in Decision No. 70635.

The Commission opened Docket No. E-00000A-09-0066 *"In the matter of the Commission's generic docket for information gathering concerning renewable transmission issues identified in the Fifth Biennial Transmission Assessment final order as required in Decision No. 70635"*.

The Finance Subcommittee is submitting its Final Report, dated as of October 5, 2009, into the above docket. The Final Report provides information on the activities of the Subcommittee during the period of January through September 2009. It consists of an Executive Summary, Background, Process, Findings and Conclusions, Summary and Recommendations, and supporting Appendices.

Please direct any questions that may arise from this filing to the undersigned at (602) 808-2004.

Sincerely,

A handwritten signature in black ink, appearing to read "Tom C. Wray". The signature is fluid and cursive, with the first name "Tom" being more prominent.

Tom C. Wray
Chairman, Finance Subcommittee
Renewable Energy Transmission Task Force

Attachment

Cc: File

Peter Krzykos, Chairman, RTTF
Robert Kondziolka, Chairman, SWAT

A

FINAL REPORT

On the Activities of the

Finance Subcommittee

Renewable Energy Transmission Task Force

Southwest Area Transmission Planning Group

October 5, 2009

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ACKNOWLEDGEMENTS

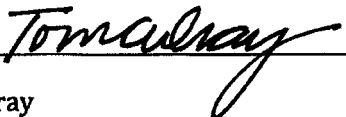
The work products, findings, conclusions and recommendations of the Finance Subcommittee are due to the efforts of the following companies and organizations:

Arizona Corporation Commission Staff; Arizona Public Service Company; Az ISA; Bright Source Energy; Element Power; Federal Energy Regulatory Commission; Genesee Consulting Group, LLC; Horizon Wind Energy; Interwest Energy Alliance; POWER Engineers; RES Americas, Inc.; Richard W. Tobin II, LLC; Salt River Project; SouthWestern Power; Southwest Transmission Cooperative, Inc.; Tessera Solar; Tucson Electric Power Company; Western Grid Group; and Western States Energy Solutions

Further recognition is extended for the participation by and thoughtful insights from the following individuals:

Albert, Brad - APS
Bagley, Ken - Genesee
Bahl, Prem¹ - ACC
Belval, Ron - TEP
Bernosky, Gregory - APS
Brandt, Jana - SRP
Charters, Jim - Western States Energy Solutions
Cole, Brian - APS
Groves, Jack - POWER Engineers
Kondziolka, Robert - SRP
Ormond, Amanda - Interwest Energy Alliance and Western Grid Group
Scott, Deb - APS
Tobin, Richard - RWT II, LLC
Woodall, Laurie

Finally, the Subcommittee's efforts were aided substantially by the diligent assistance of Cindy Bailey. Cindy arranged all the meetings; helped in the production of presentation materials; made filings in the ACC docket; and, drafted Subcommittee reports (including this one).



Tom Wray
Chairman

¹ Commission Staff attended most of the meetings of the Finance Subcommittee, and provided comments in the process of the drafting of this report. However, the conclusions of this report do not necessarily, in whole or in part, represent Staff's recommendations and/or conclusions.

INTRODUCTION

The Final Report of the Finance Subcommittee of the Renewable Energy Transmission Task Force ("RTTF") provides information on the activities of the Subcommittee during the period of January-September 2009. It consists of an Executive Summary, Background, Process, Findings and Conclusions, Summary and Recommendations, and supporting Appendices.

EXECUTIVE SUMMARY

The RTTF, itself a formal task force of the Southwest Area Transmission planning group ("SWAT"), established the Finance Subcommittee on January 8, 2009. This action was taken to provide supplemental advisory information to the Arizona Corporation Commission's ("ACC" or "Commission") jurisdictional utilities. This information was intended for the utilities' consideration as part of their response to ACC Decision No. 70635 (the "Decision"), issued on December 11, 2008, which requires the utilities to identify and develop plans for the top three renewable transmission projects, submit a report by October 31, 2009, and have this report discussed in the Commission's next BTA. This Decision was the result of the 2008 Biennial Transmission Assessment ("BTA") process, which is undertaken every two years pursuant to A.R.S. § 40-360.02.

The RTTF assigned the Finance Subcommittee the tasks of investigating and recommending financing methodologies for Renewable Transmission Projects ("RTPs") in Arizona. The findings and recommendations of the Subcommittee were to be submitted to the RTTF and the jurisdictional utilities subject to the Decision. In coordination with its companion RTTF subcommittee, the Arizona Renewable Resource and Transmission Identification Subcommittee ("ARRTIS"), the Finance Subcommittee was also directed to provide support to the utilities responsible for the Workshops as directed by the ACC in the Decision.

The Finance Subcommittee has conducted four meetings to discuss factual matters relating to possible financing methods for RTPs in Arizona. Areas of investigation included: developing a working definition for an RTP; review of various project subscription methodologies; provisions for recovery of reasonable and prudent costs; and, various methods for providing utilities with an enhanced means to effectively finance and construct RTPs.

The Finance Subcommittee participated in two utility-sponsored workshops that were arranged as a means to facilitate stakeholder input on the issues raised in the Decision.

Following considerable investigation and deliberation, the Finance Subcommittee recommends that the Commission adopt a Renewable Transmission Action Plan as a methodology for identifying, planning, and facilitating RTP development in Arizona.

Further, the Subcommittee recommends that the Commission closely coordinate RTP cost recovery determinations for utilities, with similar determinations made by the Federal Energy Regulatory Commission, as such jurisdiction inevitably overlaps.

Finally, the Subcommittee recommends specific cost components associated with RTP development that should be eligible for rate recovery by utilities.

Additional discussion on these recommendations can be found beginning on page 15 of this Final Report.

BACKGROUND

On December 11, 2008, the Commission issued its Decision No. 70635 in Docket No. E-00000D-07-0376:

"IN THE MATTER OF THE COMMISSION'S FIFTH BIENNIAL TRANSMISSION ASSESSMENT ("BTA"), PURSUANT TO THE ADEQUACY OF EXISTING AND PLANNED TRANSMISSION FACILITIES TO MEET ARIZONA'S ENERGY NEEDS IN A RELIABLE MANNER"

[ACC Decision No. 70635 can be found in Appendix A of this report.]

In response to the Decision, the RTTF created the ARRTIS and the Finance Subcommittees on January 8, 2009. The RTTF directed the two subcommittees to generate supplemental information and recommendations for the jurisdictional utilities to consider as part of their response to the Decision.

The Decision directed the utilities to:

"...identify future renewable transmission projects and develop plans and propose funding mechanisms to construct the top three renewable transmission projects. These plans and mechanisms shall be filed with the Commission no later than October 31, 2009, and shall be discussed in the sixth Biennial Transmission Assessment..." (Page 9; Lines 2-6).

The subcommittees were directed to complete their work, such that utilities subject to the Decision had sufficient time to prepare their filings by October 31, 2009.

The Finance Subcommittee was created to investigate and recommend financing methodologies the ACC can consider and implement on RTPs, such as those identified by ARRTIS. The two subcommittees were expected to coordinate activities and work products to provide the utilities with comprehensive information and recommendations that address the issues raised in the Decision.

In addition to the development of financing methodologies for RTPs, the Finance Subcommittee provided support to the two utility-sponsored workshops that were conducted on April 20, 2009 and June 5, 2009, respectively.

On June 16, 2009, the Finance Subcommittee established a Work Group to document the Finance Subcommittee's findings, conclusions, and recommendations for possible funding mechanisms for RTPs. The Work Group prepared a memorandum of *"Proposed Findings of Fact"* to assist the Commission in establishing a process for the evaluation and approval of RTPs.

The Final Report is provided to the Commission, utilities subject to the Decision, and interested stakeholders.

PROCESS

This section describes the process by which the Subcommittee sought to achieve the objectives set forth by the RTTF and to meet the expectations contemplated by the Commission in the Decision. The primary objective of the Finance Subcommittee was to investigate and recommend possible funding mechanisms that could apply to the utilities' three proposed RTPs that would promote the development of Arizona's renewable energy resources.

During an RTTF meeting on January 8, 2009, the Finance Subcommittee was established. Tom Wray was designated the chairman and deemed responsible for coordinating the Subcommittee's activities and development of various work products.

On February 6, 2009, the Finance Subcommittee chairman issued an e-mail correspondence to all participants-of-record in RTTF and SWAT to solicit involvement and input from interested stakeholders desiring to address the issues raised in the Decision. This solicitation of interest was supplemented with a description of the Finance Subcommittee's proposed schedule and scope of investigation. The Finance Subcommittee's scope of investigation, as proposed at that time, included:

1. Establish a working definition for a "renewable transmission project";
2. Review methods of securing project participation in RTPs, including open seasons, request for proposal, bilateral contracts, auctions, transmission capacity options, etc.;
3. Develop a standard procedure for utilities to accumulate costs attributable to engineering, technical studies, survey work and investigation, permitting and rights-of-way acquisition in support of RTPs, which may become eligible for rate-based cost recovery by order of the Commission;
4. Review procedures whereby incentives are available to utilities participating in RTPs, including the ability to earn a higher rate of return on equity invested by the company's shareholders; and,
5. Investigate the applicability of alternative capital structures for both construction and operating period financing.

[Appendix B to this report includes the February 6, 2009 solicitation of interest e-mail and the Finance Subcommittee's **Scope and Schedule** document.]

Meeting No. 1 of the Subcommittee was conducted on February 18, 2009. The primary task of the first meeting was to refine the Subcommittee's scope of investigation and schedule. Matters discussed at the meeting included: ACC Decision No. 70635; the relationship between the Subcommittee's work efforts and the planned workshops; potential definitions for an RTP in Arizona; and, the possible work products developed from the Subcommittee's efforts.

[Appendix C includes the items used during Meeting No. 1 including, agenda, roster, presentation materials, subcommittee timeline, and revised minutes.]

Meeting No. 2 of the Finance Subcommittee was conducted on March 4, 2009. Subcommittee participants provided input on topics relevant to the Subcommittee's scope of investigation including: a working definition for RTPs; cost recovery methodologies for capital investments in RTPs located in Arizona; allocation of both a base and incentive rate of return for development efforts on RTPs; transmission capacity subscription methods and practices; developing policies and recent orders of the Federal Energy Regulatory Commission ("FERC"); and, relevant legislative developments.

[Appendix D includes the items used during Meeting No. 2 including, agenda, roster, presentation materials, and revised minutes.]

The Finance Subcommittee filed an **Interim Report** on April 16, 2009 in Docket No. E-00000A-09-0066 that was opened by the Commission:

"IN THE MATTER OF THE COMMISSION'S GENERIC DOCKET FOR INFORMATION GATHERING CONCERNING RENEWABLE TRANSMISSION ISSUES IDENTIFIED IN THE FIFTH BIENNIAL TRANSMISSION ASSESSMENT FINAL ORDER AS REQUIRED IN DECISION NO. 70635"

The Interim Report provided information on the activities of the Subcommittee during the period of January through March of 2009. It consisted of an executive summary, areas of inquiry, and supporting appendices.

The RTTF directed the Subcommittee to provide support to two workshops that were conducted on April 20, 2009 and June 5, 2009, respectively, as set forth in the Decision:

"The Commission will require utilities and other stakeholders to hold a workshop to develop ways in which new transmission projects can be identified, approved for construction, and financed in a manner that will support the growth of renewables in Arizona. The workshop shall be held no later than April 30, 2009." (Page 7; Lines 17-20).

On behalf of the Subcommittee, the Finance Subcommittee chairman provided a presentation to the participants of Workshop No. 1 on April 20, 2009. The presentation provided an update on the Subcommittee's scope of investigation and progress toward developing RTP funding mechanisms and recommendations for the utilities responsible for responding to the Decision.

[Presentation provided during Workshop No. 1 was filed in Docket No. E-0000A-09-0066, on April 16, 2009, and is provided in Appendix E.]

On June 5, 2009, the utilities sponsored Workshop No. 2 at the Commission to continue the discussion on RTP issues. Participants provided input during the workshop that focused on "Ways to Finance" RTPs. The Subcommittee incorporated the ideas and suggestions gained from the workshop into its work.

[The agendas for the two utility-sponsored Workshops are found in Appendix F.]

Meeting No. 3 of the Finance Subcommittee was held on June 16, 2009. On June 4, 2009, the Finance Subcommittee chairman issued an e-mail correspondence requesting proposals from interested stakeholders on possible funding mechanisms that could be implemented for RTPs in Arizona. These proposals were presented during Meeting No. 3.

APS provided a presentation on cost recovery mechanisms and potential definitions for RTPs. APS additionally introduced a proposal for a Renewable Transmission Action Plan ("RTAP") that could be used as part of the BTA process. The RTAP was conceived as a procedure for the Commission to review and approve a utility's identified RTAP within or in parallel with the BTA process.

TEP provided a handout on a possible cost recovery process for RTPs. This document prompted a discussion on the issues associated with the Commission ordering RTP designation and the potential conflict brought about by the utilities' required compliance with FERC Order 888.

The Finance Subcommittee chairman reviewed past Subcommittee work to promote considerable discussion regarding a draft "form of order" that responds to the financing RTP issue identified in the Decision. The Finance Subcommittee generally agreed such a document should be submitted to the RTTF and utilities subject to the Decision as the Subcommittee's final work product.

Meeting No. 3 concluded with the formation of a Work Group charged with the responsibility of drafting the "form of order". The Subcommittee discussed addressing the following items in the draft order:

1. Provide a working definition of a "renewable transmission project";
2. Detail the method of the Commission's designation of RTP status;

3. Describe terms of the duration of such RTP designation and the form of application for RTP status;
4. Provide the basis and procedure for revocation of RTP status by the Commission and an appeal process before the Commission when considering such revocation;
5. Identify and establish the retail rate treatment of recoverable costs of RTP development, construction and operation, otherwise not subject to cost recovery via the utility's Open Access Transmission Tariff filed with FERC; and,
6. Establish protocols for the Commission to award an incentive return on equity for investments in eligible RTPs and, with such ROE recovery being provided through retail rates duly ordered by the Commission.

[Appendix G includes the items used during Meeting No. 3 including agenda, roster, and presentation materials.]

At the request of the chairman, Ric Tobin agreed to serve as chairman of the Work Group and to lead the effort in developing a draft "form of order". The Subcommittee designated one individual from each utility and other stakeholder representatives wishing to participate in this effort. The Work Group was composed of volunteer representatives from each utility company and other attorneys and professionals familiar with ACC practices. The members of the Work Group were:

APS:	Joseph D'Aguanno; Brian Cole; Deb Scott
SRP:	Jana Brandt; Rob Taylor
TEP:	Ron Belval; Michelle Livengood; Brenda Pries; Amy Welanders
SWTC:	Bruce Evans; Jim Rein Laurie A. Woodall

The Work Group conducted two meetings: the first on July 9, 2009 and the second on July 24, 2009. Three drafts of the memorandum regarding proposed findings for future ACC Orders regarding renewable transmission projects were circulated via e-mail among the Work Group.

[The Work Group's memorandum is found in Appendix H.]

Meeting No. 4 of the Finance Subcommittee was held on August 11, 2009. The primary focus of this meeting was to review the findings of the Work Group and seek consensus on findings, conclusions, and recommendations of the Subcommittee's collective efforts over the past 8 months.

[Appendix I includes the materials used during Meeting No. 4 including, agenda, roster, and presentation materials.]

FINDINGS AND CONCLUSIONS

The Finance Subcommittee charged the Work Group with the responsibility of drafting a “form of order” that would be responsive to the renewable transmission financing issues raised in the Decision. The Work Group’s final product was to reflect the Subcommittee’s nine-month investigation of possible funding mechanisms for RTPs in Arizona.

In the process of the Work Group’s deliberations and thorough review of three drafts on the Subcommittee’s findings, a decision was made among the Work Group participants that a draft “form of order”, as tasked by the Subcommittee, would not be pursued. Instead, an alternate approach was deemed to be more useful and more likely to attract consensus.

The Work Group prepared a memorandum of proposed findings related to renewable transmission projects. The purpose of the memorandum was to develop language (along the lines of a “form of order”) for inclusion in the Final Report. The Work Group’s intent was that the utilities consider using the memorandum as part of their response to the Decision. The Commission may then choose to include the proposed findings from the memorandum in future orders resulting from the utilities’ responses that are due by October 31, 2009, which would serve as each utility’s first RTAP.

At the conclusion of the final Finance Subcommittee meeting on August 11, 2009, the participants *generally* agreed to accept the Work Group’s memorandum and RTAP as the Subcommittee’s recommended method for financing RTPs in Arizona.

The Work Group’s memorandum that was accepted at the final Finance Subcommittee meeting, on August 11, 2009, included the following:

- Each jurisdictional utility will file² an RTAP, concurrent with the filing of its Ten Year Plan. The RTAP will describe with specificity the RTPs that the utility is proposing. Contemporaneous with the 2012 BTA process, the ACC may assess the need and frequency for subsequent RTAP filings.
- Jurisdictional utilities’ RTAPs may include RTPs with ownership participation involving non-jurisdictional parties (i.e., merchants, independents, etc.).
- The RTAP will include the following information:

² The Subcommittee did not make any specific recommendations regarding the procedural mechanisms for filing the RTPs and RTAPs.

1. Identification of RTPs, which includes the acquisition of transmission capacity, such as, but not limited to, (i) new transmission line(s), (ii) upgrade(s) of existing line(s), or (iii) the development of transmission project(s) previously identified by the utility (whether conceptual, planned, committed and/or existing), all of which provide **either**:

- Additional direct transmission infrastructure providing access to areas within the state of Arizona that have renewable energy resources, as defined by the Commission's Renewable Energy Standard Rules (A.A.C. R14-2-1801, *et seq.*), or are likely to have renewable energy resources;

Or

- Additional transmission facilities that enable renewable resources to be delivered to load centers.

2. Description of how each RTP is expected to advance renewable resource deployment within the State of Arizona.
 3. Development approach and schedule for the proposed RTPs, including plans for solicitation of other participants and/or commercial interests, and pre-conditions for moving beyond initial development activities to actual construction.
 4. Expected costs of the RTPs, including an assessment of the range of bill impacts for retail customers for each project, and a range of the project costs for each phase of the development approach set forth by the utility in the RTAP.
 5. Cost recovery, including any special regulatory treatment that will be sought from the Federal Energy Regulatory Commission ("FERC") or other regulatory agencies.
 6. Status report on RTPs identified in the previous RTAP.
- The ACC would review and approve RTPs within a utility's RTAP. An RTP that provides potential benefits to Arizona electric consumers that outweigh the potential costs could be deemed to be in the public interest and would be considered for approval.
 - Once a project has been designated an RTP by the ACC, then it shall maintain that status unless it is shown by clear and convincing evidence, presented during a hearing, that the RTP does not and will not provide the capability to advance renewable resource development in the State of Arizona as described in the filing utility's RTAP.

- The ACC may consider pre-approval of cost recovery for a utility to enter into a long-term transmission service agreements in order to facilitate the construction of transmission facilities where the transmission line is not owned by the utility (to allow for the purchase of transmission capacity).
- Because network transmission facilities are under the jurisdiction of FERC, the utility will initially seek any necessary cost recovery and special regulatory treatment, if applicable, of ACC-approved RTAP projects, from FERC. Special regulatory treatment available from FERC may include, but is not limited to, enhanced return-on-equity, Construction Work in Progress ("CWIP") in rates, and assurances of cost-recovery should the project be prudently discontinued.
- To improve a utility's ability to obtain financing for the RTPs, timely recovery of transmission costs in retail rates should be provided by a transmission cost adjustor mechanism, transmission cost rider or some other ACC-approved mechanism that provides for recovery of FERC-accepted rates. A cost recovery mechanism would be adopted in a utility's rate case proceeding.
- Should FERC fail to fully approve cost recovery or provide special regulatory treatment for ACC-approved RTPs, or if the utility proposes an RTP that does not fall within FERC jurisdiction (such as a radial line that is not a network facility), a utility may seek cost-recovery and/or special regulatory treatment from the ACC, such as:
 - Timely cost recovery for prudently incurred developmental costs, including permitting; engineering and environmental investigation costs; technical study costs; survey and mapping costs; preliminary right-of-way acquisition costs; and other project formation costs, as well as for prudent costs of construction of RTP.
 - A utility may be entitled to receive an enhanced return on equity incentive for RTPs from the ACC.
 - A utility may be entitled to CWIP in rates.
 - In the event that a specific RTP project is no longer reasonable due to a change in circumstances, the utility's prudently incurred costs may be considered for recovery by the Commission.

SUMMARY AND RECOMMENDATIONS

Obtaining consensus was difficult on all matters associated with defining methods of financing RTPs in Arizona. The subject is complex as jurisdiction over transmission development, financing, construction and operation, is a shared responsibility between the ACC and FERC. Facts of individual cases generally determine the proper forum of jurisdiction, but areas of grey persist.

FERC Order 888 requires non-discriminatory access to transmission service by any shipper meeting certain requirements. FERC requirements do not allow discrimination in access to transmission based upon fuel type utilized by the generator-shipper. Thus, in accordance with current federal law, cost recovery through pro-forma tariff rents is insensitive to developing renewable transmission policy, and is determined irrespective of a generator's fuel type. This practice is currently undergoing substantial review which may lead to changes. In the meantime, some renewable energy projects identified in Arizona are in need of transmission lines as one precondition to serious investment of capital and ultimate development of such projects. The other precondition for the investment of capital and development of renewable resources is the signing of power purchase agreements with load-serving entities.

FERC's Open Access Transmission Tariffs ("OATTs") generally apply to transmission facilities placed in "network" service on the interconnected grid. These OATTs generally do not apply to radial transmission facilities or so-called "generator tie-lines", which are transmission lines built from a generation facility to another transmission line.

As the Commission considers the coming identification of recommended RTPs by the utilities, attention should be directed to balancing potential customer costs and benefits with the regulatory treatment necessary to get the transmission lines developed. These considerations include whether renewable transmission projects have the capability to encourage development of renewable generation and the potential benefits that customers may derive from this increased renewable energy. This determination cannot be made by the Commission by formula or fiat: a proposition on which the Subcommittee reached consensus. Rather, this must be settled on a case-by-case basis. What is offered below are "considerations for comparisons" that will materially aid the Commission in achieving fair and equitable treatment of each RTP application:

- I. RTPs, RTAPs, the BTA and Determining Project Eligibility
 - A. Under normal circumstances, all RTPs shall be characterized and identified in the utility's RTAP.

- B. Each utility's RTAP, beyond their required submittal in response to BTA Order 70635, shall be filed prior to the 2012 BTA.
- C. Subsequent incorporation of a review of RTAPs in future BTAs will be determined by the Commission.
- D. To be eligible for RTP treatments, the candidate RTP must be included in the utility's RTAP and duly filed with the Commission.
- E. RTP treatment and any special cost recovery considerations shall be requested by the utility as part of the utility's RTAP filing with the Commission.
- F. RTAPs may include RTPs having participation of non-jurisdictional parties.

II. Coordination of Jurisdictions and RTP Cost Recovery in Retail Rates

- A. If an otherwise eligible RTP is capable of cost recovery through the utility's OATT, the Commission need only approve the utility's RTAP and associated RTPs.
- B. The Commission may issue a finding that such an RTP has achieved eligibility as a renewable transmission project within Arizona's jurisdiction.
- C. The filing utility may utilize such formal Commission finding at FERC to further justify full recovery of costs and other special cost recovery considerations as presented in the utility's RTAP.
- D. In circumstances where the cost of transmission projects necessary to the development of the state's renewable resources is not recoverable in federal jurisdiction, the utility may seek such recovery from the Commission.
- E. Cost recovery will include full recapture of prudently-incurred costs of development, financing, construction and operation of the RTP.
- F. Cost recovery may also include an incentive rate of return on equity, if requested by the utility, and as determined by the Commission.
- G. Utilities may request advance approval from the Commission of a cost recovery protocol on an RTP prior to commencing investment in the project.
- H. Utilities receiving cost recovery on an RTP approved by the Commission shall not have such recovery interrupted by an act of revocation of RTP status by the Commission without due process in a scheduled hearing.
- I. Revocation of RTP status by the Commission cannot be based on actions taken by the utility necessary to comply with federal law, rule or practice.

- J. Notwithstanding other parts of this section, the jurisdiction of the Commission over RTPs involving the participation of non-jurisdictional parties shall not relieve the Commission from determining cost recovery remedies for the jurisdictional utilities involved in such projects.

III. Components of Cost Recovery

- A. Cost recovery shall be timely
- B. Costs shall be prudently-incurred as determined by the Commission
- C. Costs eligible for recovery include, but are not limited to, the following:
 - i. Permitting and licensing activities;
 - ii. Land and rights-of-way acquisition;
 - iii. Engineering;
 - iv. Environmental and cultural mitigation;
 - v. Environmental fatal flaw screening studies;
 - vi. Technical studies;
 - vii. Mapping and surveying;
 - viii. Legal costs including project formation fees and expenses;
 - ix. Incentive rate of return on equity;
 - x. Construction work-in-progress;
 - xi. Costs of project removal prior to commercial operation; and
 - xii. Abandonment and salvage costs.

**Contents of the Finance Subcommittee Submissions
to ACC Docket No. E-00000A-09-0066:**

April 16, 2009	Cover Letter; Interim Report; Supporting Appendices; Meeting Materials for the Subcommittee's first two meetings; and, Presentation for the ACC Workshop No. 1
June 18, 2009	Cover Letter; Meeting Materials for the Subcommittee's third meeting

APPENDICES

- A ACC Decision No. 70635
 December 11, 2008

- B Solicitation of Interest E-Mail & Finance Subcommittee Scope and Schedule
 February 6, 2009

- C Meeting No. 1
 February 18, 2009
 - i. Agenda
 - ii. Roster
 - iii. Presentation Materials
 - iv. Subcommittee Timeline
 - v. Minutes

- D Meeting No. 2
 March 4, 2009
 - i. Agenda
 - ii. Roster
 - iii. Presentation Materials
 - iv. Minutes

- E Finance Subcommittee Presentation provided at ACC Workshop No. 1
 April 20, 2009

- F Agendas for ACC Workshops
 April 20, 2009
 June 5, 2009

- G Meeting No. 3 Documents:
 - i. Agenda
 - ii. Roster
 - iii. Subcommittee Presentation
 - iv. APS Presentation
 - v. RTP Cost Recovery Handout from TEP

- H Finance Subcommittee Work Group's *Memorandum of Proposed Findings for Future
 ACC Orders re Renewable Transmission*

- I Meeting No. 4
August 11, 2009
 - i. Agenda
 - ii. Roster
 - iii. Presentation

List of Acronyms

ACC	Arizona Corporation Commission
BTA	Biennial Transmission Assessment
APS	Arizona Public Service Company
FERC	Federal Energy Regulatory Commission
OATT	Open Access Transmission Tariff
RTAP	Renewable Transmission Action Plan
RTTF	Renewable Energy Transmission Task Force
RTP	Renewable Transmission Project
SRP	Salt River Project Agricultural Improvement and Power District
SWAT	Southwest Area Transmission Planning Group
SWTC	Southwest Transmission Cooperative, Inc.
TEP	Tucson Electric Power Company

Appendix A

ACC Order No. 70635

December 11, 2008

1 **BEFORE THE ARIZONA CORPORATION COMMISSION**

2 **MIKE GLEASON**
 Chairman
3 **WILLIAM A. MUNDELL**
 Commissioner
4 **JEFF HATCH-MILLER**
 Commissioner
5 **KRISTIN K. MAYES**
 Commissioner
6 **GARY PIERCE**
 Commissioner

Arizona Corporation Commission

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8 **IN THE MATTER OF THE COMMISSION'S**
9 **FIFTH BIENNIAL TRANSMISSION**
10 **ASSESSMENT ("BTA"), PURSUANT TO**
11 **THE ADEQUACY OF EXISTING AND**
12 **PLANNED TRANSMISSION FACILITIES**
13 **TO MEET ARIZONA'S ENERGY NEEDS**
14 **IN A RELIABLE MANNER**

DOCKET NO. E-00000D-07-0376

DECISION NO. 70635

ORDER

14 Open Meeting
15 December 3, 2008
16 Phoenix, Arizona

16 **BY THE COMMISSION:**

17 **FINDINGS OF FACT**

18 1. The Utilities Division Staff ("Staff") of the Arizona Corporation Commission
19 ("Commission") and its consultant, K.R. Saline and Associates, PLC ("KRSA"), have completed
20 the fifth biennial assessment of Arizona's existing and planned transmission system. The Fifth
21 Biennial Transmission Assessment, 2008-2017 ("BTA", or "assessment") was filed with the
22 Commission on October 22, 2008. The BTA report was also posted on the Commission website at:
23 <http://www.cc.state.az.us/divisions/utilities/electric/biennial.asp>.

24 2. The Fifth BTA report represents the professional opinion of Staff and its consultant,
25 KRSA. The BTA is not an evaluation of individual transmission providers' facilities or quality of
26 service. The BTA does not set Commission policy and does not recommend specific action for
27 any individual Arizona transmission provider. It assesses the adequacy of Arizona's transmission
28 system to reliably meet existing and future energy needs of the state.

1 3. Staff held two workshops to gather stakeholders' input. The first workshop was
2 held on May 22-23, 2008 and the second workshop was held on September 18, 2008. The
3 comments and presentations submitted at the workshops, materials filed in the docket and
4 subsequent correspondence have been incorporated into the BTA.

5 4. The ten-year transmission plans and study reports filed by the participants with the
6 Commission are necessary to evaluate the adequacy and reliability of the transmission system.
7 Staff was assisted by KRSA in analyzing the technical reports and documents filed by various
8 organizations. The broad spectrum of information and technical reports assembled and reviewed
9 address transmission assessments from a national, western interconnection, regional, state and
10 local utility perspective.

11 5. The Fifth BTA report addresses the adequacy and reliability of Arizona's existing
12 and planned transmission system and offers conclusions and recommendations for the
13 Commission's consideration and action. Staff concludes in its report that the Arizona utility
14 industry has implemented steps to address the regional transmission planning issues, provide
15 transmission enhancements and additions, develop solutions for transmission import constraints in
16 various load pockets, and address local transmission system inadequacies.

17 These conclusions are based upon the following findings:

- 18 a. The existing and proposed Arizona transmission system meets the load serving
19 requirements of the state in a reliable manner. However, plans for the last five years of
20 the period from 2008- 2017 are less well defined than those in the earlier five years. As
21 such there are system performance issues that occasionally still need attention in the
22 last five years. There is still sufficient time to refine the planned improvements to
23 mitigate those concerns.
- 24 b. The 2008 level of preparedness of the three major utilities in Arizona appears to be
25 high and above the norm. None of the concerns in prior summer preparedness Open
26 Meetings over the past decade were present in 2008. The current electric utility system
27 in Arizona is adequate and, based upon the assumptions contained herein, should meet
28 the energy needs of the State of Arizona in 2008 with reliable service.
- c. The existing and planned transmission systems serving the Phoenix, Santa Cruz
County, Tucson, and Yuma areas are adequate and should reliably meet the local
energy needs of the respective areas through 2017. The adequacy level of the
Mohave County system is unclear due to controverted conclusions reached in multiple
publicly available study reports.

- 1 d. Santa Cruz County and Cochise County are served by radial transmission lines.
2 Growing numbers of customers are, therefore, exposed to extended service
3 interruptions following the loss of a single transmission line in these two counties. The
4 ability of the two area service providers to restore service to customers within a
5 reasonable period of time following a transmission line outage has been a long
6 standing concern of the Commission. Transmission improvements that assure
7 "continuity of service" for loss of a single transmission line is a public policy that
8 should be adopted by the service providers to replace the "restoration of service"
9 practice present in these two counties.
- 10 e. The Fourth BTA documented that N-1 contingency violations occurred for loss of the
11 Apache to Butterfield 230 kV line, the Butterfield to San Rafael 230 kV line, or the
12 Pantano to Kartchner 115 kV line, as reflected in the Southwest Transmission
13 Cooperative ("SWTC") 2015 planning study. The Commission granted SWTC a time
14 extension until January 2008 to resolve these three Cochise County N-1 contingency
15 violations and to file expansion plans that resolve the issues as part of its 2008-2017
16 ten year plan. SWTC's ten year plan contains a proposal to resolve the issues. Staff
17 concludes this proposed new line is not an adequate transmission solution for the N-1
18 contingencies because it perpetuates radial transmission service and "restoration of
19 service" practices in Cochise County through at least 2026.
- 20 f. All Commission required studies have been filed. Arizona Public Service ("APS") and
21 Tucson Electric Power ("TEP") filed Reliability Must Run ("RMR") studies. Salt River
22 Project ("SRP") filed Southwest Arizona Transmission Study Group ("SWAT")
23 studies that address N-1-1 contingencies and extreme contingency study requirements.
24 SRP filed the Study of Pinal County and the SWAT Renewable Transmission Task
25 Force ("Task Force") Report. APS filed a supplemental SWAT Task Force Report to
26 address Staff's concerns. SWTC and TEP have also responded to the requirement that
27 they file transmission plans and analyses addressing specific deficiencies described in
28 the Fourth BTA.
- g. In general the RMR studies show that each RMR area will have sufficient maximum
load serving capability to reliably serve the respective area's load during the next ten
year period. The RMR studies also indicate local RMR generation will not be
dispatched out of merit order for significant hours or yield RMR costs sufficient to
warrant advancing transmission improvements.
- h. A Ten Year Snap Shot Study, and N-1-1 Study, and Extreme Contingency Study were
performed by the Central Arizona Transmission System ("CATS") Extra High Voltage
("EHV") study group. TEP also modeled corridor outages and extreme contingencies
in its RMR studies. The filed studies were thorough and well documented. The
studies comport with the study effort outlined by Staff. These studies generally
indicated that the Arizona utilities' ten year plans are sufficiently robust to provide
adequate and reliable service to Arizona customers.
- i. The Task Force Report was filed for this BTA in compliance with the fourth BTA
Order. (Decision No.69389) A supplement to the original report was filed on August

6, 2008, in response to the BTA Workshop I request. The original report, the supplement, and the associated BTA Workshop I presentation document the stakeholder process that the Task Force utilized to assemble an industry perspective regarding the renewable energy development potential in Arizona. The industry's response comports with the Commission's Order in the Fourth BTA.

- j. TEP addressed the Fourth BTA's Finding of Fact 6(d) that the "Tucson area RMR requirements could be eliminated and the load area have open access to lower cost resources from the outside market if incremental upgrades are justified."
- k. SWTC filed a ten year plan with a proposed improvement that resolved contingency violations that were reflected in its 2015 planning study.
- l. Six major EHV transmission projects are proposed and have been addressed in this Fifth BTA. Individually and collectively these projects will improve the opportunity for interstate commerce in power transfers: TransWest Express Project, High Plains Express Project, SunZia Project, Diné Power Authority Project, Palo Verde to Devers No. 2 Project and the Palo Verde to North Gila No. 2 Project.
- m. Ongoing planned upgrades to existing EHV facilities will increase the transmission system capability to support increased interstate power transfers and provide reliable transfers within the state of Arizona.
- n. The Seams Issues Subcommittee ("SIS") report finds no specific seams issues that are created by California's Market Redesign and Technology Upgrade ("MRTU") or existing seams issues that are substantially worsened by MRTU implementation. Seams issues exist today, particularly between organized markets such as the California Independent System Operator ("CAISO") and bilateral physical markets that dominate the Western Interconnection. The SIS will continue to monitor, evaluate and propose solutions to all regional seams issues.
- o. This is the first BTA to address planned transmission facilities resulting from the studies performed by the Southeast Arizona Transmission Study ("SATS") Subcommittee. The transmission facilities studied are reflected in the SWTC and TEP ten year plans. The planned in-service dates for SWTC and TEP projects contemplated within the ten year planning cycle should be identified in order for proper modeling in future power flow base cases.
- p. Planning of local transmission improvements (115 kV through 230 kV) has traditionally been left to the respective transmission providers. As a result of sub regional collaboration such as that resulting in SATS, and the mandates of the Federal Energy Regulatory Commission ("FERC") Order 890, new local transmission planning processes are emerging that are open to stakeholders' participation.
- q. The Colorado River Transmission ("CRT") Subcommittee is engaged in its first formal study as a SWAT Subcommittee. The study is evaluating the Harcuvar Project interconnection with the Palo Verde to Devers No. 2 500 kV line. It would be helpful if CRT also addressed the local High Voltage ("HV") needs of Mohave County and

Yuma County in conjunction with the EHV transmission interfaces between Arizona, Nevada, and California.

RECOMMENDATIONS

Staff recommends that the Commission:

1. Continue to support use of:

- a. "Guiding Principles for ACC Staff Determination of Electric System Adequacy and Reliability" to aid Staff in its determination of adequacy and reliability of power plant and transmission line projects,
- b. North American Electric Reliability Corporation ("NERC") and Western Electricity Coordinating Council ("WECC") criteria and FERC policies regarding the transmission system reliability, and,
- c. Collaborative study activities between transmission providers and merchant plant developers for the purpose of:
 - i. Ensuring consumer benefits of generation additions and cost effective transmission enhancements and interconnections, and
 - ii. Facilitating restructuring of the electric utility industry to reliably serve Arizona consumers at just and reasonable rates via competitive wholesale markets.

2. Accept the results of the following studies provided as a part of the Fifth BTA filings:

- a. Compliance with single contingency criteria overlapped with the bulk power system facilities maintenance (N-1-1) criteria for the first year of the analysis period as required by WECC and NERC.
- b. Extreme contingency outages studied for Arizona's major generation hubs and major transmission stations and associated risks and consequences documented if mitigating infrastructure improvements are not planned.

3. Continue to support the policy that generation interconnections should be granted a Certificate of Environmental Compatibility ("CEC") by the Commission only when they meet regional and national reliability criteria and the requirements of Commission decisions.

4. Enter the following orders:

...

- a. Arizona transmission providers shall explore formation of sub regional planning forums that assume the responsibility of addressing the local HV and EHV transmission import and RMR conditions in Mohave County and Yuma County. Such study forums shall be compatible with and supportive of FERC Order 890 local transmission provider planning obligations.
- b. APS shall file a Yuma County RMR study report with the next BTA that continues to incorporate the plans of all entities proposing to interconnect and do business in Yuma County.
- c. UNSE and Mohave Electric Cooperative ("MEC") shall collaborate with other stakeholders and UNSE shall file a Mohave County RMR study report with the next BTA that includes the impacts, influences, and system performance of all proposed local HV and EHV transmission improvements and potential generation interconnections occurring in the area. MEC shall provide all necessary MEC system data to UNSE to perform the RMR study.
- d. Commission regulated electric utilities shall file the SWAT Renewable Transmission Task Force transmission study report and the WestConnect Long Range Planning Study report within 30 days of their respective completion dates in order to supplement the renewable transmission assessments filed with this BTA.
- e. Commission regulated utilities shall continue to perform RMR studies in accordance with the methodology set forth in Appendix C to this Fifth BTA, and shall file such studies with ten year plans for even numbered years for inclusion in future BTA reports
- f. The SATS long range study is envisioned to be completed in 2008. This study is predominantly shaping the ten year plans filed with the Commission for SWTC and TEP. TEP shall file the SATS long range study on behalf of all SATS participants by January 2009.
- g. TEP and SWTC shall resolve all "to be determined" ("TBD") in-service dates for facilities envisioned to be constructed within the next ten years. The ten year plans filed by TEP and SWTC in January 2009 shall incorporate such resolved in-service dates. Plans that fall beyond the ten year horizon may be included in subsequent ten year plan filings but shall be identified as not occurring within the ten year horizon, if a TBD date designation is used.
- h. UNSE shall perform studies and shall file a report of those studies for the next BTA that establishes a long range system plan for Santa Cruz County that is founded on the principle of continuity of service following a transmission line outage. Elements of that system plan shall be incorporated in the UNSE ten year plan with a defined in-service date and shall be filed with the Commission in January 2009.

...

- 1 i. APS, SSVEC, and TEP shall perform collaborative studies and shall file a
2 report of those studies for the next BTA that establishes a long range system
3 plan for Cochise County that is founded on the principle of continuity of service
4 following a transmission line outage. SWTC shall participate in the study effort
5 as SSVEC's current sole transmission service provider. Relevant elements of
6 that plan shall be incorporated in each transmission service provider's
7 respective ten year plans with defined in-service dates and shall be filed with
8 the Commission in January 2009.

9 OTHER

10 The Commission appreciates the hard work performed by the utilities, the Arizona
11 Renewable Transmission Task Force, and the SWAT Renewable Transmission Task Force in
12 identifying the location and amount of transmission needed to support the growth of renewable
13 resources in Arizona. Now that the aggregated state-wide needs have been identified, the
14 Commission believes that the next logical step is to develop procedures to assist in commencing
15 construction of the most urgently needed transmission lines.

16 The Commission realizes that this next step includes the classic "chicken or egg" dilemma,
17 in that renewable developers may not put forth projects unless transmission is available and
18 utilities may be reluctant to build transmission without commitments from renewable resource
19 developers to build generation facilities. We need a new process to solve this dilemma.

20 The Commission will require utilities and other stakeholders to hold a workshop to develop
21 ways in which new transmission projects can be identified, approved for construction, and
22 financed in a manner that will support the growth of renewables in Arizona. The workshop shall
23 be held no later than April 30, 2009.

24 Possible approaches to be considered could include a multi-phase approach that starts with
25 an "open season" solicitation of confidential letters of intent to bid on renewable Requests for
26 Proposals. These letters would identify the exact location of the proposed project, the technology
27 proposed and the project output. Then, based on the results of the "open season," the utility or
28 multiple utilities would identify sub-regions or areas where a critical mass of proposed projects is
29 likely to be built. Based on this information, a utility or utilities could commence a formal
30 Request for Proposals for a specific sub-region and select one or more renewable projects needing
31 transmission in that sub-region.

1 Each utility would, as a result of this process, identify the top three potential renewable
2 transmission projects in its service territory. Each utility, either alone or in cooperation with other
3 interested utilities, would develop plans to identify future renewable transmission projects and
4 develop plans and propose funding mechanisms to construct the top three renewable transmission
5 projects. Those projects could include joint projects in other service territories.

6 CONCLUSIONS OF LAW

7 1. According to A.R.S. § 40-360.02.A, "Every person contemplating construction of
8 any transmission line within the state during any ten year period shall file a ten year plan with the
9 Commission on or before January 31 of each year."

10 2. According to A.R.S. §40-360.02.G, "The plans shall be reviewed biennially by the
11 Commission and the Commission shall issue a written decision regarding the adequacy of the
12 existing and planned transmission facilities in this state to meet the present and future energy
13 needs of this state in a reliable manner."

14 3. The Commission, having reviewed the Fifth Biennial Transmission Assessment
15 2008-2017, concludes that the assessment complies with A.R.S. §40-360.02.

16 ORDER

17 THEREFORE, IT IS ORDERED that the Fifth Biennial Transmission Assessment 2008 -
18 2017 is hereby issued as the Commission's biennial assessment in accordance with A.R.S. §40-
19 360.02.G.

20 IT IS FURTHER ORDERED that Commission-regulated electric utilities shall, by
21 April 30, 2009, conduct a joint workshop or series of planning meetings to develop ways in which
22 new transmission projects can be identified, approved for construction, and financed in a manner
23 that will support the growth of renewables in Arizona.

24 IT IS FURTHER ORDERED that the Commission-regulated electric utilities shall take the
25 results of the Arizona Renewable Transmission Task Force and the SWAT Renewable
26 Transmission Task Force Plans developed for the Fifth Biennial Transmission Assessment and
27 identify the top three potential renewable transmission projects in their respective service
28 territories.

1 IT IS FURTHER ORDERED that each Commission-regulated utility, either alone or in
2 cooperation with other interested utilities, shall develop plans to identify future renewable
3 transmission projects and develop plans and propose funding mechanisms to construct the top
4 three renewable transmission projects. These plans and mechanisms shall be filed with the
5 Commission no later than October 31, 2009 and shall be discussed in the Sixth Biennial
6 Transmission Assessment.

7 IT IS FURTHER ORDERED that Staff recommendations contained herein are hereby
8 adopted by the Commission.

9 IT IS FURTHER ORDERED that this Order shall become effective immediately.

10
11 BY THE ORDER OF THE ARIZONA CORPORATION COMMISSION

12
13 Lance S. Sleam
CHAIRMAN

12
13 William C. McNeil
COMMISSIONER

14
15
16 Jeffrey W. Hatch-Miller
COMMISSIONER

15
16 John W. ...
COMMISSIONER

15
16 Gary ...
COMMISSIONER

17 IN WITNESS WHEREOF, I, BRIAN C. McNEIL, Executive
18 Director of the Arizona Corporation Commission, have
19 hereunto, set my hand and caused the official seal of this
20 Commission to be affixed at the Capitol, in the City of
21 Phoenix, this 11th day of December, 2008.

22
23 Brian C. McNeil
EXECUTIVE DIRECTOR

24
25 DISSENT: _____

26
27 DISSENT: _____

28 EGJ:PKB:lhmc/CH

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Appendix B

Solicitation of Interest E-Mail & Subcommittee Scope and Schedule

February 6, 2009

Subject: Renewable Transmission Task Force: Project Finance Subcommittee

Attached is a scope and schedule document pertaining to formation of this new subcommittee. Please take a few minutes to review it.

This subcommittee will, in general, investigate methodologies for financing renewable transmission projects in Arizona. To meet both the expectations and schedule found in Arizona Corporation Commission Order No. 70635, associated with the Fifth Biennial Transmission Assessment, the subcommittee must complete its study work and provide findings and recommendations for further action no later than April 1, 2009. Doing so will better accommodate the stakeholder workshop contemplated by the Order, that needs to be completed by April 30, 2009.

If you would like to participate on the RTTF Project Finance Subcommittee, please provide your contact information to Cindy Bailey at cbailey@southwesternpower.com, no later than February 12, 2009.

1. Name of Participant
2. Participant's Organization (if any)
3. Participant's e-mail address
4. Telephone Contact Number

Your participation is both encouraged and welcomed.

The subcommittee's initial meeting is scheduled for Thursday, February 18, 2009. An agenda and meeting time/location will be provided a later date.

Thanks in advance for your attention to this important matter.

Tom Wray
Chairman, RTTF Project Finance Subcommittee

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**Southwest Area Transmission Group
Renewable Transmission Task Force (RTTF)
Project Finance Subcommittee**

1.0 Overview

The Project Finance Subcommittee has been established to provide recommendations to the full RTTF of a methodology of financing identified renewable transmission projects in Arizona, including rate recovery mechanisms for jurisdictional utilities that might be proposed to the Arizona Corporation Commission. The subcommittee's efforts are in support of an eventual response to the Fifth Biennial Transmission Assessment, as set forth in Docket No. E-00000D-07-0376 and addressed in Commission Order No.70635, dated December 11, 2008. Of particular relevance to the subcommittee's scope of investigation are statements found in the Order at page 7, lines 13 through 20 and page 8, lines 1 through 5, excerpts of which are reproduced below:

*"...the classic '**chicken or egg**' dilemma ..."*

*"...**We need a new process** to solve this dilemma."*

*"...require utilities and other stakeholders to ... **develop ways** in which new transmission **projects can be ...financed...**"*

*"...would develop plans to identify future renewable transmission projects and develop plans and **propose funding mechanisms** to construct the top three renewable transmission projects." [Emphasis added]*

The Order also provides the following deadlines for certain deliverables from jurisdictional utilities:

April 30, 2009: *"The workshop(s) shall be held no later than April 30, 2009."*

October 31, 2009: *"These plans and mechanisms shall be filed with the Commission no later than October 31, 2009 ..."*

2.0 Subcommittee Schedule

2.1 The Order contemplates those utilities subject to the Commission's jurisdiction must plan and conduct workshops prior to the end of April. Thus, this subcommittee should plan its work to conclude our investigation and recommendations by this deadline to allow the full RTTF to conduct a comment period with sufficient time to be incorporated into the April workshop. There is also a need to coordinate with relevant work being undertaken by the RTTF Arizona Subcommittee (ARRTIS) and its investigation of Arizona's renewable resource zones and the transmission facilities needed to connect these zones to the existing electrical grid.

3.0 Subcommittee Scope of Investigation

3.1 Establish a working definition for a "Renewable Transmission Project (RTP)";

3.2 Review methods of securing project participation in RTPs, including open seasons, requests for proposal, bilateral contracts, auctions, transmission capacity options, etc;

3.3 Develop a standard procedure for utilities to accumulate costs attributable to preliminary engineering, technical studies, survey work and investigation, permitting and rights-of-way acquisition in support of RTPs, which become eligible for rate-based cost recovery by order of the Commission;

3.4 Review procedures whereby incentives are available to utilities participating in RTPs, including the ability to earn a higher rate of return on equity invested by the company's shareholders; and,

3.5 Investigate the applicability of alternative capital structures for both construction and operating period financing.

4.0 Subcommittee Deliverables

4.1 Provide agendas and minutes of all meetings.

4.1 Prepare and issue a report of findings and recommendations to the full RTTF no later than April 1, 2009.

{As of: 2-6-09.}

Appendix C

Meeting No. 1
February 18, 2009

i. Agenda

**Southwest Area Transmission (SWAT) Study Group
Renewable Transmission Task Force (RTTF)**

**Project Finance Subcommittee
MEETING NO. 1 AGENDA**

Wednesday, February 18, 2009
2:00 PM – 4:00 PM

Arizona Public Service Company Central Headquarters
400 N. 5th Street, Phoenix AZ
Conference Room 2-South [Second Floor]

- 1) Welcome**
- 2) Introductions and Sign-In**
- 3) Review Agenda**
- 4) SWAT-RTTF Overview**
- 5) Review of ACC BTA Order No. 70635**
- 6) Review of Project Finance Subcommittee:**
 - a) Schedule – Conclude initial tasks prior to RTP Workshop deadline:
April 30, 2009**
 - b) Scope – Produce recommendations on RTP financing and provide
support to the RTP Workshop**
- 7) Description of Deliverables**
 - a) Interim Report to full RTTF by April 1, 2009**
 - b) Provide Workshop support during April 2009**
 - c) Draft Form of Order to full RTTF by August 1, 2009**
- 8) Next Meeting**

Appendix C

Meeting No. 1
February 18, 2009

ii. Roster

SWAT Renewable Transmission Task Force Project Finance Subcommittee

Sign-in Sheet

Name	Organization	Phone	E-mail
KB Bagley, Ken	Harcuvar Transmission Project	(623) 748-8989	kabagley@cox.net
KB Bailey, Cindy	SouthWestern Power Group	(602) 808-2004	cbailey@southwesternpower.com
PHON E Bantu, Ravi	RES Americas Inc	(303) 579-6345	ravi.bantu@res-americas.com
PHON E Brandt, Jana	SRP	(602) 236-5028	jana.brandt@srpnet.com
PHON E Charters, James H.	Western States Energy Solutions	(623) 572-7972	jcharters@msn.com
PHON E Cole, Brian	APS		Brian.Cole@aps.com
PHON E Estrada, Giancarlo	Arizona Corporation Commission	(602) 542-3622	restrada@azcc.gov
PHON E Getts, David	SouthWestern Power Group <i>San Francisco</i>	(602) 808-2099	Dgetts@southwesternpower.com
PHON E Groves, Jack	POWER Engineers	(505) 898-8964	jgroves@powereng.com
PHON E Kondziolka, Robert	Salt River Project	(602) 236-0971	rekondzi@srpnet.com
PHON E Krzykos, Peter	APS	(602) 250-1649	peter.krzykos@aps.com
PHON E Loehr, Jeff	SRP Transmission System Planning	(602) 236-0972	jeff.loehr@srpnet.com
PHON E McMichael, Richard			richardmcmichael@bp.com
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PHON E Woodall, Laurie	K.R. Saline & Associates	(480) 610-8741	law@krsaline.com
PHON E Wray, Tom	SouthWestern Power Group	(602) 808-2004	twray@southwesternpower.com
PHON E <i>SMOLDON RUSSELL</i>	<i>SRP</i>	<i>602 236-2831</i>	<i>rseldon@srpnet.com</i>
PHON E Albert, Brad	APS	602-250-2347	Bradley, Albert @ aps.com
PHON E RASMUSSEN, BELAN	BRIGHT SOURCE ENERGY	602-357-8016	brasmussen@brightsourceenergy.com
PHON E Cobb, Antoin	APS	602 250 2347	antoin.cobb@aps.com
PHON E Bernosky, Greg	APS		gregory.bernosky@aps.com
PHON E Ormond, Amanda	InterWest		asormond@msn.com

Appendix C

Meeting No. 1
February 18, 2009

iii. Presentation Materials



RTTF PROJECT FINANCE SUBCOMMITTEE



Meeting No. 1
February 18, 2009
Chairman: Tom Wray

Welcome

- Please state your name and organization
- Sign-In Sheet
 - Please initial next to your name. If you are not listed, please fill in your contact information

Agenda

- SWAT~RTTF Overview
- Review of ACC BTA Order No. 70635
- Review of Project Finance Subcommittee
 - Schedule (Timeline)
 - Scope
- Deliverables
- Next Meeting

SWAT~RTTF Overview

- **Southwest Area Transmission (SWAT) Study Group:**
Comprised of utilities and stakeholders engaged in collaborative transmission planning for the AZ, NM, NV and southern CA high voltage grid.
- **Renewable Transmission Task Force (RTTF):** Committee of SWAT tasked to:
 - 1) Identify renewable resource potential in the SWAT footprint.
 - 2) Conduct technical studies of transmission systems to interconnect potential renewable energy generation to load centers and the grid.

Review of ACC BTA Order No. 70635

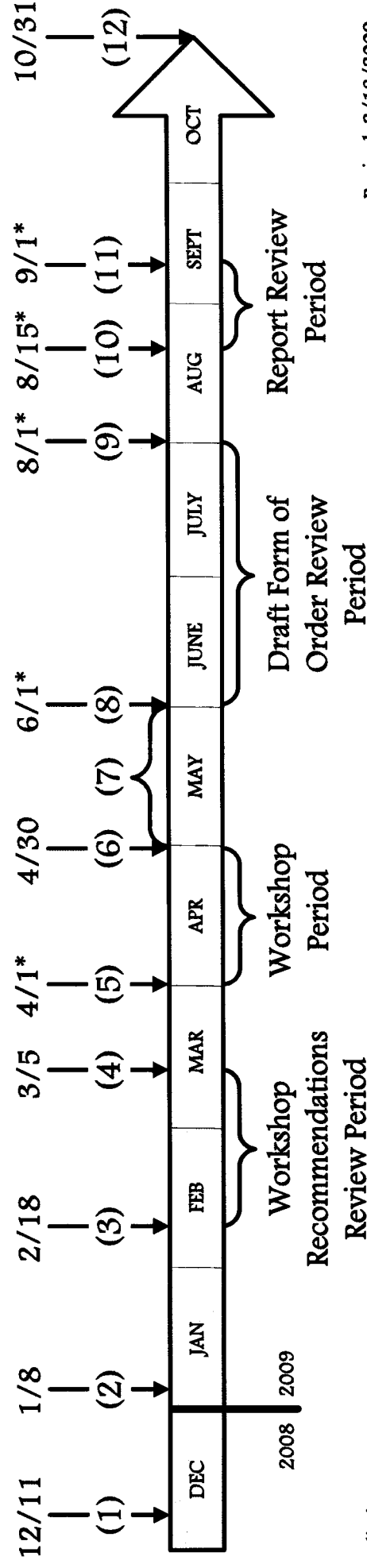
Associated with Renewable Transmission Projects (RTPs)

1. Regulated utilities must update RTTF and WestConnect reports to supplement the BTA's RTP assessment (Page 6; Part 4.d.)
1. “...by April 30, 2009, conduct a joint workshop or series of planning meetings...” to “identify” and “finance” RTPs (Page 8; Lines 20~23)
1. Regulated utilities “...shall take the results of...” the “...SWAT Renewable Transmission Task Force...” and “...identify the top three...” RTPs within “...their respective service territories” (Page 8; Lines 24~28)
1. Regulated utilities shall file “plans and funding mechanisms” with the Commission “no later than October 31, 2009” (Page 9; Lines 1~5)

ACC Order No. 70635:

Project Finance Subcommittee Timeline

- (1) 12/11/08 ACC issues Order No. 70635
- (2) 1/8/09 RTTF creates subcommittees: a) AARTIS b) Project Finance
- (3) 2/18/09 Meeting No. 1: Define Scope; Schedule; RTP Definition; Deliverables
- (4) 3/5/09 Meeting No. 2: Finalize Workshop Recommendations
- (5) 4/1/09* Submit Interim Report to RTTF
- (6) 4/30/09 End of Workshop Period per Order No. 70635
- (7) 5/09 Based on Workshop(s), RTTF reviews subcommittee scope of investigation
- (8) 6/1/09* Meeting No. 3: Discuss and develop Draft Form of Order
- (9) 8/1/09* Meeting No. 4: Conclude Review of Draft Form of Order
- (10) 8/15/09* Issue Draft Report to Subcommittee
- (11) 9/1/09* Issue Final Report to RTTF with recommended Form of Order
- (12) 10/31/09 Utilities respond to order No. 70635: "...funding mechanisms... shall be filed with the Commission no later than October 31, 2009..."



*Preliminary Dates

Revised: 2/18/2009

ACC Docket No. E-0000A-09-0066

Scope

Define: Renewable Transmission Project (RTP)

- 1.0 RTPs are not transmission projects whose primary function results in the following:
 - 1.1 Satisfies growth of jurisdictional peak load
 - 1.2 Mitigates service reliability problems
 - 1.3 Provides an operational convenience on the grid
 - 1.4 Constructed for purposes other than to access renewables to comply with a RES or for providing market export capability for renewables
 - 1.5 Other non-qualifying characteristics?

Scope

Continued...

Define: Renewable Transmission Project (RTP)

- 2.0 A transmission project is a RTP if:
 - 2.1 The facility transmits “at least thirty percent of the electric energy” “...from renewable energy sources”. [NMSA 1978 62~16A-2.D; RETA in New Mexico]
 - 2.2 Other regional or national RTP definition examples?

Scope

Continued...

Define: Renewable Transmission Project (RTP)

3.0 Proposed working definitions for RTPs in Arizona

3.1 Project must demonstrate to the Commission that at least 50% of the WECC-rated line capacity is used or will be used by bona fide renewable power generators;

OR

3.2 Project would otherwise not have been proposed were it not for primarily providing transmission access to and delivery of bona fide renewable power generation

Scope

Continued...

3.3 Notes to 3.0 (Proposed working definition for RTPs in AZ)

3.3.1 Rated capacity is measured in MW (not MWH)

3.3.2 Rated transmission capacity is that rating duly-established by WECC and posted as ATC

3.3.3 Capacity utilized is based on transmission service contracts filed with FERC

3.3.4 Prospective estimates of “renewable transmission capacity” to be utilized can be based on capacity options, interconnection queues or open season auctions

3.3.5 Compliance with the RTP definition can also be based on negotiated bilateral contracts for firm, conditional firm and interruptible capacity (point-to-point and network), as approved by FERC

Scope

Continued...

- 4.0 Discussion of solicitations for and subscriptions of RTP capacity
 - 4.1 Open Seasons
 - 4.1.1 Deposits
 - 4.1.2 Credit Screens
 - 4.1.3 Culling and Re-bids
 - 4.2 RFPs
 - 4.3 Auctions
 - 4.4 Capacity Options
 - 4.5 Bilateral Contracts
 - 4.6 Emerging Trends at FERC

Scope

Continued...

5.0 Cost Recovery and ROE Incentives

5.1 Utilities should receive pro-forma recovery of prudently-incurred costs of investigating RTP feasibility, including costs for:

5.1.1 Preliminary engineering

5.1.2 Technical studies

5.1.3 Survey and mapping

5.1.4 Preliminary ROW acquisition (ie: options)

5.1.5 Project formation and development activities

5.1.6 Project abandonment

Scope

Continued...

5.2 The Commission should consider awarding utilities incentive ROEs for equity invested in successful RTPs, including those necessary to satisfy that utility's REST obligations, and for developing RTP capacity for exporting the state's renewable resources

5.3 The Commission should consider alternative capital structures associated with RTPs that might be proposed by utilities

Deliverables

- Interim Report to RTF by April 1, 2009
- Provide workshop support during April 2009
- Subcommittee develops Draft Form of Order: June through August 2009
- Subcommittee issues Final Report and recommended Draft Form of Order by September 1, 2009

.....

Next Project Finance Subcommittee Meeting

- Meeting No. 2:
 - Thursday, March 5, 2009
 - 12:30 PM to 3:00 PM
 - APS Central Headquarters

.....

Subcommittee Contact Information

Cindy Bailey

cbailey@southwesternpower.com

Tom Wray

twray@southwesternpower.com

South Western Power

Main Phone: (602) 808-2004

Appendix C

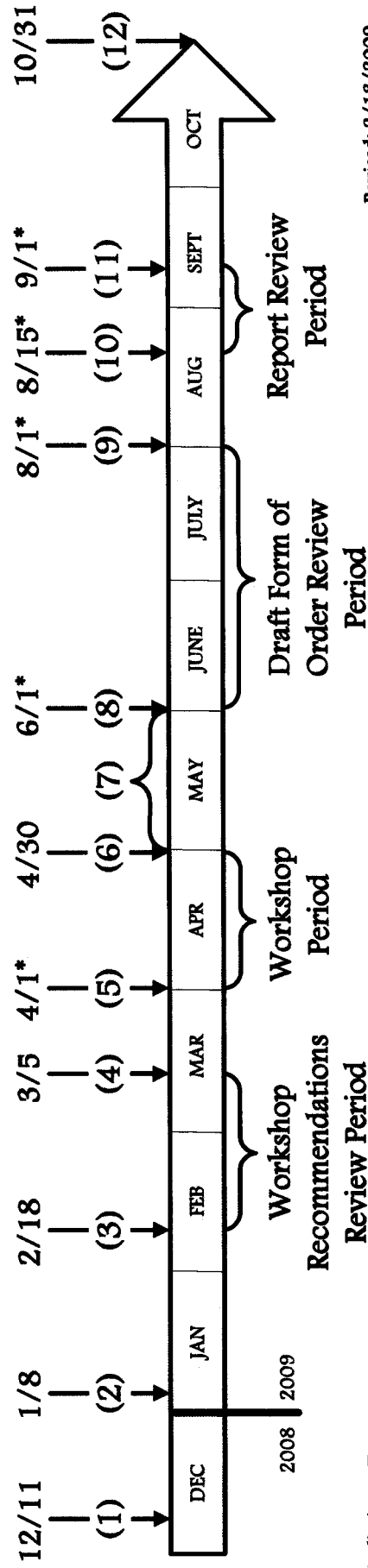
Meeting No. 1
February 18, 2009

iv. Subcommittee Timeline

Attachment A

ACC Order No. 70635: RTTF Project Finance Subcommittee Timeline

- (1) 12/11/08 ACC issues Order No. 70635
- (2) 1/8/09 RTTF creates subcommittees: a) AARTIS b) Project Finance
- (3) 2/18/09 Meeting No. 1: Define Scope; Schedule; RTP Definition; Deliverables
- (4) 3/5/09 Meeting No. 2: Finalize Workshop Recommendations
- (5) 4/1/09* Submit Interim Report to RTTF
- (6) 4/30/09 End of Workshop Period per Order No. 70635
- (7) 5/09 Based on Workshop(s), RTTF reviews subcommittee scope of investigation
- (8) 6/1/09* Meeting No. 3: Discuss and develop Draft Form of Order
- (9) 8/1/09* Meeting No. 4: Conclude Review of Draft Form of Order
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- (12) 10/31/09 Utilities respond to order No. 70635: "...funding mechanisms... shall be filed with the Commission no later than October 31, 2009..."



*Preliminary Dates

Revised: 2/18/2009
ACC Docket No. E-0000A-09-0066

Appendix C

Meeting No. 1
February 18, 2009

v. Minutes



SWAT RTTF Project Finance Subcommittee
Meeting No. 1
February 18, 2009

REVISED Minutes

(as of 3/5/2009)

Revisions are depicted as the following:

Deleted items are shown as strike-through

Added items are shown in ***bold italics***

Attendees:

Albert, Brad
Bagley, Ken
Bailey, Cindy
Bantu, Ravi
Bernosky, Greg
Brandt, Jana
Charter, James

Cobb, Antoine
Cole, Brian
Estrada, Giancarlo
Getts, David
Kondziolka, Robert
Ormond, Amanda
Rasmussen, Brian

Smoldon, Russell
Stahlhut, Jonathan
Tobin, Richard
Woodall, Laurie
Wray, Tom (chairman)

Meeting Notes:

1) Introductions

All meeting attendees at APS Central Headquarters and on the conference line identified themselves and the organizations they represent.

**2) Southwest Area Transmission ("SWAT") Study Group and
Renewable Transmission Task Force ("RTTF") Overview**

The chairman briefly described the purpose of SWAT and RTTF which are the parent groups of the Project Finance Subcommittee ("subcommittee").

**3) Review of Arizona Corporation Commission ("Commission") Biennial
Transmission Assessment ("BTA") Order No. 70635**

The subcommittee reviewed the Commission's BTA Order No. 70635 since this document directed:

“...each Commission-regulated utility, either alone or in cooperation with other interested utilities, shall develop plans to identify future renewable transmission projects and develop plans and propose funding mechanisms to construct the top three renewable transmission projects.”
(Page 9; Lines 1-4).

At the RTTF meeting conducted on 1/8/2009, the subcommittee was created to investigate possible funding mechanisms for the three proposed renewable transmission projects expected to be identified by the utilities and filed with the Commission, no later than 10/31/2009.

4) Review of Project Finance Subcommittee:

a) Schedule

The subcommittee discussed the *Project Finance Subcommittee Timeline* (see Attachment A) that outlines Order-mandated deadlines as well as the target dates for subcommittee meetings and deliverables. The subcommittee will develop project financing recommendations and an interim report that will be provided to the RTTF by 4/1/2009. The project financing recommendations will be first drafted by the chairman and distributed among the subcommittee for their review and comment at the next subcommittee meeting, scheduled for 3/4/2009. The project financing recommendations and interim report will be available to the utilities conducting the Workshop during April:

“...Commission-regulated electric utilities shall, by April 30, 2009, conduct a joint workshop or series of planning meetings to develop ways in which new transmission projects can be identified, approved for construction, and financed in a manner that will support the growth of renewables in Arizona” (Page 8; Lines 20-23).

The RTTF will have the month of May to review and consider the results of the Workshop and make changes, as needed, to the subcommittee's future scope of investigation. The chairman emphasized the need for, as part of the subcommittee's work product, a draft “form of Order” describing how the Commission would treat both costs of development and earnings from renewable transmission projects (RTPs). Due to its importance, the subcommittee will set aside a two month period for review and refinement of such a draft form of Order during June and July. Following this review period, a Final Report and a recommended final form of Order will be issued to the RTTF for their review by 9/1/2009.

The subcommittee discussed how the RTTF, Arizona Renewable Resource Transmission Subcommittee (AARTIS), and the Project Finance Subcommittee will coordinate their activities.

b) Scope

The subcommittee reviewed possible RTP characteristics. This led to discussion of examples of transmission projects that amount to an ordinary course of business, as contrasted to projects whose primary purpose is for delivery of renewable energy generation projects. Such “ordinary” transmission projects include those whose primary function is to satisfy growth of jurisdictional peak load, mitigate service reliability problems, or provide an operational convenience on the grid. Projects may qualify for RTP status if they create access to renewable energy resources to accommodate the state’s Renewable Energy Standards (RES) or provide market export capacity for renewable energy resources.

The subcommittee reviewed New Mexico’s Renewable Energy Transmission Authority’s RTP definition as a facility that transmits “...at least thirty percent of the electric energy...” “...from renewable energy sources” (NMSA 1978 62-16A-2.D; RETA New Mexico). The chairman proposed two alternative working definitions for RTPs in Arizona as being projects that can demonstrate to the Commission that (1) at least 50% of the WECC-rated line capacity (in MWs) is used or will be used by bona fide renewable energy generators, or (2) the project would otherwise not have been proposed were it not for primarily providing transmission access to and delivery of bona fide renewable energy generation. The first proposed RTP definition prompted discussion among the subcommittee of how a project would maintain its RTP designation once placed in operation. The RTP would need a method to evidence compliance by measuring the percentage of capacity on the line that is designated for use by renewable energy generation, especially in the event future pro-forma Federal Energy Regulatory Commission (“FERC”) Order 888 interconnections come from non-renewable generation sources seeking such interconnection. Evidence might be provided by RTP owners in the form of transmission service agreements filed with the FERC. ~~There is clearly a need to create measurable protocols that establish initial and ongoing RTP status.~~ The form of Order should describe such protocols for the Commission’s consideration. The subcommittee preferred the second definition for an RTP, as it was deemed more workable and easier to administer. ***Brian Cole from APS pointed out the subcommittee raised concerns about each of the preliminary definitions that were laid out in the meeting’s presentation. The meeting did not conclude with consensus of a final RTP definition to use as the group considers financing mechanisms for RTPs. RTP definitions will be further discussed at subsequent meetings.***

The Commission might consider conducting a Notice of Proposed Rulemaking to establish the rules and procedures governing RTPs. Once RTP status is designated by an order of the Commission, the *purpose and need* of an RTP ought to be deemed as being established (i.e.: incontrovertible and irrecusable) and therefore, by operation of the order

itself, in the public interest. There was general consensus that further discussion of the working definition of an RTP is warranted.

The subcommittee also discussed solicitation and subscription methods of RTP capacity through open season processes, requests for proposals, auctions, capacity options, bi-lateral contracts, and interconnection queues. There are also emerging trends at FERC the chairman will provide to the subcommittee for future review.

Financing mechanisms that could encourage utilities to engage in RTP development might come in the form of cost recovery methodologies and incentives that limit the investment risks undertaken by the utility. Utilities might receive pro-forma recovery of prudently-incurred costs invested to determine project feasibility. Such costs could include preliminary engineering and environmental costs, technical studies, surveying and mapping, preliminary right-of-way acquisition, project formation and other development activities. Project abandonment costs should also be addressed.

In addition, the Commission might consider awarding utilities an incentive return on equity (ROE) for investments in successful RTPs. Candidate RTPs eligible to receive ROE incentives would include projects that satisfy a utility's RES and projects creating transmission capacity for exporting or importing the state's renewable energy resources.

5) Description of Deliverables:

A preliminary Interim Report will be submitted to the RTTF by 4/1/2009 as input to the April Workshop. There was general consensus this was a reasonable deadline. The subcommittee will support the RTP Workshop(s) by recommending project financing mechanisms that can be discussed there.

A Final Report will be prepared and provided to the RTTF by 9/1/2009. A draft form of Order will be included with this report.

6) Next Steps:

At Meeting No. 2, the subcommittee will review and finalize the input for the April Workshop. The subcommittee will also review the subject outline and content of the Interim Report to the RTTF.

Project Finance Subcommittee Meeting No. 2:

Wednesday, March 4, 2009
10:00 AM – 12:00 PM
12:00 PM – 1:00 PM (lunch)

SRP PERA Club
1 E. Continental Drive
Tempe, AZ 85281-1053

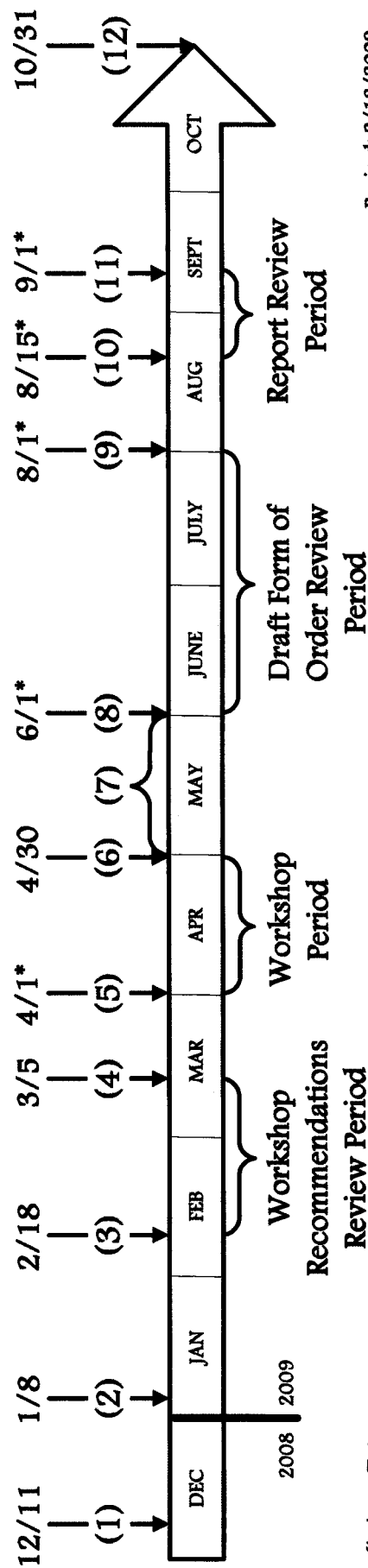
7) **Adjourn: 3:56 PM**

Attachment A: RTTF Project Finance Subcommittee Timeline

Attachment A

ACC Order No. 70635: RTTF Project Finance Subcommittee Timeline

- (1) 12/11/08 ACC issues Order No. 70635
- (2) 1/8/09 RTTF creates subcommittees: a) AARTIS b) Project Finance
- (3) 2/18/09 Meeting No. 1: Define Scope; Schedule; RTP Definition; Deliverables
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- (11) 9/1/09* Issue Final Report to RTTF with recommended Form of Order
- (12) 10/31/09 Utilities respond to order No. 70635: "...funding mechanisms... shall be filed with the Commission no later than October 31, 2009..."



*Preliminary Dates

Appendix D

Meeting No. 2
March 4, 2009

i. Agenda

**Southwest Area Transmission (SWAT) Study Group
Renewable Transmission Task Force (RTTF)**

**Project Finance Subcommittee
MEETING NO. 2 AGENDA**

Wednesday, March 4, 2009
10:00 AM – 12:00 PM
12:00 – 1:00 PM Lunch

SRP PERA Club
1 E. Continental Drive, Tempe, AZ 85281-1053
Big Horn Terrance Conference Room

- 1) **Welcome**
- 2) **Introductions and Sign-In**
- 3) **Review Agenda**
- 4) **Review and Approve Meeting No. 1 Minutes (2/18/2009)**
- 5) **Discussion of Cost Recovery Methodologies**
- 6) **Renewable Transmission Project (RTP) Subscription Methodologies and
Developing Policy**
- 7) **RTP Working Definition**
- 8) **Interim Report: Outline Contents (Submittal deadline: 4/1/2009)**
- 9) **Next Steps and Meeting Schedule**
- 10) **Adjourn**

Appendix D

Meeting No. 2
March 4, 2009

ii. Roster

**SWAT Renewable Transmission Task Force
Project Finance Subcommittee**

Sign-in Sheet

Name	Organization	Phone	E-mail
BJA Albert, Brad	APS	(602) 250-2347	bradley.albert@aps.com
Bagley, Ken	Harcuvar Transmission Project	(623) 748-8989	kabagley@cox.net
BAILEY Bailey, Cindy	SouthWestern Power Group	(602) 808-2004	cbailey@southwesternpower.com
Bantu, Ravi	RES Americas Inc	(303) 579-6345	ravi.bantu@res-americas.com
Bernosky, Greg	APS		gregory.bernosky@aps.com
Belval, Ron	TEP	(520) 745-3420	RBelval@tep.com
Brandt, Jana	SRP	(602) 236-5028	jana.brandt@srpnet.com
Charters, James H.	Western States Energy Solutions	(623) 572-7972	J Charters@msn.com
Cobb, Antoine	APS	(602) 250-2547	antoine.com@aps.com
Cole, Brian	APS		Brian.Cole@aps.com
Estrada, Giancarlo	Arizona Corporation Commission	(602) 542-3622	gestrada@azcc.gov
Getts, David	SouthWestern Power Group/SunZia	(602) 808-2099	Dgetts@southwesternpower.com
Groves, Jack	POWER Engineers	(505) 898-8964	jgroves@powereng.com
Kondziolka, Robert	Salt River Project	(602) 236-0971	rekondzi@srpnet.com
Krzykos, Peter	APS	(602) 250-1649	peter.krzykos@aps.com
Loehr, Jeff	SRP Transmission System Planning	(602) 236-0972	jeff.loehr@srpnet.com
McMichael, Richard			richardmcmichael@bp.com
Ormond, Amanda	Interwest		aormond@msn.com
Rasmussen, Brian	Bright Source Energy	(602) 357-8016	brasmussen@brightsourceenergy.com
Smolden, Russell	SRP	(602) 236-2834	rdsmolden@srpnet.com
Stahlhut, Jonathan	APS	(602) 250-1116	Jonathan.Stahlhut@aps.com
Tobin, Richard	Richard W. Tobin II, LLC	(623) 202-9298	Richard.tobin@rwbarton.azbar.org
Williamson, Ray T.	AZ Corporation Commission	(602) 542-0828	rwilliamson@cc.state.az.us
Woodall, Laurie	K.R. Saline & Associates	(480) 610-8741	law@krsaline.com
Wray, Tom	SouthWestern Power Group	(602) 808-2004	twray@southwesternpower.com
Johnson, Jeffrey	APS	(602) 250-2661	Jeffrey.Johnson@aps.com

Meeting No. 2
March 4, 2009

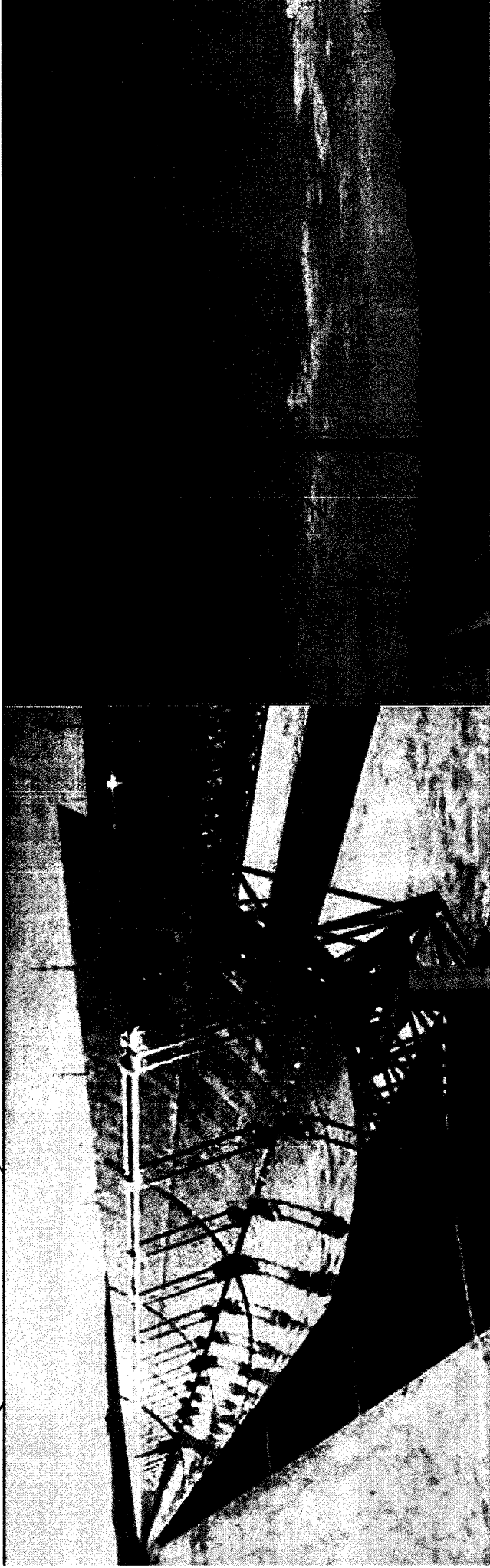
Appendix D

Meeting No. 2
March 4, 2009

iii. Presentation Materials



RTTF PROJECT FINANCE SUBCOMMITTEE



Meeting No. 2
March 4, 2009
Chairman: Tom Wray

Welcome

- Please state your name and organization
- Sign-In Sheet
 - Please initial next to your name. If you are not listed, please fill in your contact information

Agenda

- Review and Approve Meeting No. 1 Minutes
(2/18/2009)
- Discussion of Cost Recovery Methodologies
- RTP Subscription Methodologies and Developing Policy
- RTP Working Definition
- Interim Report: Outline Contents
 - (Submittal Deadline: 4-1-2009)
- Next Steps and Meeting Schedule
- Adjourn

Cost Recovery Methodologies for Determining Project Feasibility

★ Cost-Basis Candidates ★

- 1.0 Preliminary engineering and environmental investigation costs
 - Line layouts; field work; tower selection; corridor utilization; environmental fatal-flaw screening; visual simulations cultural-biological-plant resource screening

2.0 Technical Study Costs

- Power flows; contingency analysis; interconnection impact studies

3.0 Survey and Mapping costs

- GIS shape file data gathering and manipulation; aerial photography; field surveying; map production

.....

Incentives for RTP Development

1.0 Business as Usual

- 1.1 Utility invests in RTPs to satisfy RES only
- 1.2 Commission allows Base ROE only; Full Recovery of prudent costs

2.0 Utility goes Beyond RES

- 2.1 Utility invests in RTPs to exceed RES minimums
- 2.2 Commission allows Base ROE and Incentive; Full Recovery of prudent costs

Incentives for RTP Development (continued)

For each jurisdictional utility, ROE allocation choices become:

	RTP In-State	RTP Export
Greater than RES	BASE & INCENTIVE	BASE & INCENTIVE
Less than or Equal to RES	BASE	Irrational Area

Where:

Base = Last highest ROE granted in a Rate Case Order by the Commission to the subject utility

Incentive = ROE “adders” to encourage RTP development (see accompanying chart for examples)

Incentives for RTP Development (continued)

Incentive ROE = X basis point adder following a pro-forma schedule, such as (example):

A	10 %	
B	20 %	
C	30 %	

Where “Incremental Renewable Capacity” is the additional amount of renewable megawatts (expressed as a % of the posted TTC of the RTP) of bona fide renewable generation wheeled, under terms of FERC-filed transmission service agreements with a renewable generator customer.

RTP Subscription Methodologies & Developing Policy

Arizona needs to define its own policy for developing RTPs or the federal government will do it for Arizona.

Following Slides address:

- Methods of acquiring commercial interest necessary to develop RTPs
- Recent activity at FERC
- Current developments at Congress

RTP Subscription Methodologies

1.0 Subscription Methods

1.1 Capacity Open Seasons

1.1.1 Pre-Bid Credit Screening

1.1.2 Non-refundable Bid Deposits

1.1.3 Ranking by Highest Bid; Culling Low Bidders; Re-Bids

2.0 Request for Proposals

2.1 Often follow Open Season Process

2.2 May be for lease participation or ownership

2.3 Typically yield unclear results and indication of real interest in proposed project

RTP Subscription Methodologies (continued)

3.0 Auctions

- 3.1 Have worked best as a market evaluation of the value of congestion relief
- 3.2 Results of Highest Bid may not always meet the earnings expectation of a developer

4.0 Capacity Options

- 4.1 Most effective for a project developer if done through bi-lateral contracts
- 4.2 May be per se discriminatory or uncompetitive without a FERC order
- 4.3 Requires option holder to assume regulatory risk as option is purchased prior to FERC-approved tariff
- 4.4 Option strike date is the date FERC approves project tariff
- 4.5 At strike date, Option has no value

RTP Subscription Methodologies (continued)

5.0 Bi-Lateral Contracts

- 5.1 Most desirable method of capacity allocation to developer
 - 5.1.1 Captures “best” of above methods (1.0 – 4.0)
 - 5.1.2 Credit screening; most financeable transmission service contracts, etc.
 - 5.1.3 Basis of “anchor tenant” model (recent FERC activity)

6.0 Capacity Options

How are conditions of undue preference and discrimination avoided?

Federal Policy Affecting RTP Development

1.0 Recent FERC Rulemaking

1.1 “Chinook – Zephyr Order” [Docket No. ER09-432-000]

1.1.1 Summary of Order

1.1.1.1 Abandoned ten-year old 10-criteria analysis for a 4-factor basis:

- (a) Just and Reasonable Rates
- (b) Potential for Undue Discrimination
- (c) Potential for Undue Preference (esp. Affiliate Preference)
- (d) Regional Reliability and Operational Efficiency

1.1.1.2 Agreed with applicant’s bi-lateral reservation of half (1500 MW in each line) of both Chinook and Zephyr (500 kV DC lines rated 3,000 MW, each)

Federal Policy Affecting RTP Development

(continued)

1.1.1.3 Reserved capacity was for “anchor tenant”

1.1.1.4 Rates charged may reflect level of market risk for construction assumed by project owner (ie: Incentive ROE)

1.1.1.5 FERC reasoned anchor tenants necessary to project financing (i.e.: half of capacity pre-subscribed; avoids “open season”)

1.1.1.6 FERC will increase scrutiny when load-serving utility affiliates are involved as anchor tenants to prevent undue preference (i.e.: avoidance of subsidy by affiliate LSE’s captive customers)

1.1.1.7 If in an RTO with ISO control, no extra reliability requirements needed; if not (i.e.: non-CAISO portion of WECC), bi-laterals, OATT tariffs and Order 890 will govern

Federal Policy Affecting RTP Development

(continued)

1.2 “Tallgrass and Prairie Wind” Orders

[Docket No. ER09-35-000; ER09-36-000] (12-2-2008)

1.2.1 Summary of Order

1.2.1.1 Projects are 765 kV AC in Oklahoma (Tallgrass) and Kansas (Prairie Wind); both within SPP jurisdiction

1.2.1.2 FERC approved a 150 bp adder to the Applicant’s base ROE s of 10.8 %; a 50 bp adder if the project companies joined the SPP and allow SPP operational control of both projects; allowance of CWIP into rate base; full recovery of abandonment costs if prudently incurred; and inclusion of development costs as a regulatory asset if prudently incurred.

Federal Policy Affecting RTP Development

(continued)

1.2.1.3 Note excerpt from Commissioner Kelly's partial dissent in supporting the Order while citing from FERC Order No. 697-A:

"...the most compelling case for incentive ROEs are new projects that present special risks or challenges, not routine investments made in the ordinary course."

2.0 Congressional Developments

2.1 Senator Reid's Bill: S. 2076

2.1.1 Title: "Clean Renewable Energy and Economic Development Incentives Act" (date: 9-20-2007)

2.1.2 Potential developing RTP definition at Congress

Federal Policy Affecting RTP Development

(continued)

- 2.1.2.1 Defines “national renewable energy zones” (REZ) as: areas capable of 1 GW or more; also lacking sufficient transmission; and, is expandable in renewable energy generation; REZs designated by the President. (Page 11)
- 2.1.2.2 Defines “renewable energy trunkline” as: reaching into remotely located REZs; foster additional renewable energy generation development; and, has at least one renewable energy generation interconnection agreement executed (Page 15)
- 2.1.2.3 Requires minimum of 75 % of the transmission line is used by renewable energy resources to obtain federal loan guarantees (Page 18)

.....

Renewable Transmission Project (RTP)

★Working Definition★

GROUP DISCUSSION

.....

Project Finance Subcommittee Interim Report to RTTF

DUE DATE: 4~1~2009

Proposed Contents:

- 1. Introduction**
- 2. Executive Summary**
- 3. Summary of Subcommittee Work to date**
- 4. Proposed Work Plan for May – August 2009**
- 5. Appendices**
 - (a) Agendas**
 - (b) Minutes**
 - (c) Presentations**
 - (d) Rosters**

Next Steps

Prepare/Circulate/Finalize Interim Report:

1. 3~18~2009: Circulate DRAFT for comments.
2. 3~25~2009: Comment Deadline.
3. 3~27~2009: Circulate New DRAFT.
4. 4~1~2009: Issue Interim Report to Chairman of RTTF and SWAT

.....

Subcommittee Contact Information

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SouthWestern Power

Main Phone: (602) 808-2004

Appendix D

Meeting No. 2
March 4, 2009

iv. Minutes



SWAT RTTF Project Finance Subcommittee
Meeting No. 2
March 4, 2009

Revised Minutes

Attendees:

Albert, Brad
Bailey, Cindy
Belval, Ron
Bernosky, Greg
Brandt, Jana
Charters, James

Cobb, Antoine
Cole, Brian
Groves, Jack
Johnson, Jeffrey
Kondziolka, Robert
Rasmussen, Brian

Tobin, Richard
Williamson, Ray
Woodall, Laurie
Wray, Tom (chairman)

Meeting Notes:

1) Introductions

All meeting attendees at the SRP PERA Club and on the conference line identified themselves and the organizations they represent.

2) Discussion and Review of the Meeting No. 1 Draft Minutes (2/18/2009)

Brian Cole from APS via e-mail dated March 3, 2009¹ had provided the subcommittee with comments and proposed revisions to Section 4 (b) of the Draft Minutes for Meeting No. 1, and a proposed definition of "Renewable Transmission Project" ("RTP").

The subcommittee discussed Mr. Cole's comments and noted there were differing views regarding a definition of RTP and agreed with Mr. Cole's comments that a consensus for a RTP definition was not achieved at Meeting No. 1. There was also a discussion regarding the alternate definition of RTP proposed by Mr. Cole in his e-mail. The subcommittee did not reach consensus on Mr. Cole's proposed alternate definition of RTP. The subcommittee agreed the Minutes of Meeting No. 1 would be modified to incorporate Mr. Cole's requested revisions. The subcommittee also agreed that all Minutes will be included as an appendix to the Interim Report, which will be submitted to the chairman of SWAT and the chairman of the Renewable Transmission Task Force.

¹ Attached to these minutes as Exhibit 1.

3) Discussion of Cost Recovery Methodologies

The subcommittee discussed the RTP development costs incurred by jurisdictional utilities that may be eligible for cost recovery. Brad Albert, from APS, raised the issue of long-lead time development costs that should be considered as expenditures eligible for cost recovery. The subcommittee discussed how the “chicken-and-egg” dilemma of transmission and renewable generator development might be addressed by cost recovery mechanisms and earnings incentives that address the financial risks utilities undertake in determining feasibility and implementing RTPs.

Greg Bernosky, from APS, noted the possible consequences RTP designation will have on establishing a project’s proposed “purpose and need.” Mr. Bernosky suggested that because RTPs encourage the development of renewable energy resources, the Arizona Corporation Commission and the Line Siting Committee may consider other factors regarding need than those considered previously. The subcommittee discussed the differing characteristics between a RTP and a more typical transmission project (“business-as-usual”):

a.) RTPs may have a greater “need” justification, and may be more in the public interest than business-as-usual transmission projects.

b.) RTPs are developed specifically to access the renewable energy needed to meet Arizona’s Renewable Energy Standard (“RES”) or to enable the state of Arizona to export renewables.

c.) RTPs vary from business-as-usual transmission projects in that they may encounter additional siting obstacles in order to access renewable resources because of the lack of existing corridors into remote areas and the need to establish new rights-of-way.

d.) Renewable energy resources are often remote and accessing them may require traversing environmentally-sensitive resource areas. Policy makers may need to consider trade offs between the need for access to a renewable area and impacts on environmentally sensitive lands.

Robert Kondziolka, from SRP, noted that an RTP specific “need” designation should not eliminate the need for environmental siting evaluations, statutory siting standards and mitigation strategies to be undertaken by transmission developers applying for a state certificate of environmental compatibility.

The chairman presented several ideas related to cost recovery by RTPs for subcommittee review and discussion:

a.) Investments in RTPs that meet the RES should be awarded full recovery of prudent costs, with a base ROE (the highest and most recent ROE granted in a rate case order by the Commission).

b.) Additional incentives for RTPs that deliver renewable energy in quantities that exceed the RES goals.

c.) RTPs which exceed the RES goals could be rewarded the same full prudent cost recovery, a base ROE and an incentive ROE determined by the “incremental renewable capacity” added above that necessary to meet a RES.

d.) Incremental renewable transmission capacity is calculated as a percentage of the posted total transfer capacity (“TTC”) of the RTP that exceeds the RES-mandated capacity. Such financial incentives might thereby encourage utilities to invest in RTPs that exceed Arizona’s RES.

Brad Albert raised the concern of how utilities will determine whether an RTP meets or exceeds the RES because utilities do not classify “RES Megawatt hours (“MWhs”)”, nor above “RES MWhs.”. Mr. Albert also expressed his support for the definition of RTP proposed by Mr. Cole.

There was a discussion relating to the definition of RTP and its effect on incentive rates and how incentive rate treatments can be effectively applied to qualifying RTPs. There was also a discussion regarding more work by the subcommittee in the area of applying base ROEs and incentive ROEs to encourage RTP development. Jack Groves noted that once incentive ROEs are set they should be a floor level value for at least “life of financing” or similar time period, so the pro forma financial models assure the long term performance of the asset to financial institutions, equity participants and regulators. There was also a discussion regarding a determination of incentive ROE eligibility, based upon a utility’s RES compliance, before the utility commits financial resources for development of an RTP.

4) Discussion of RTP Subscription Methodologies and Developing Policy

The chairman presented various RTP subscription methodologies for the subcommittee's review and discussion:

1.) Bilateral contracts were discussed as a suitable subscription methodology for RTPs.

2.) An anchor tenant model may also be useful to RTP development because it may provide both utilities and merchants with assurances of an adequate customer base that makes the project financeable.

The chairman also presented the recent FERC Chinook-Zephyr Order for the subcommittee's review and discussion whether the order may affect RTP development in Arizona. The applicants for these projects were granted the ability to reserve 50% of their transmission capacity for bilateral anchor tenants. The Tallgrass and Prairie Wind projects were also discussed as examples of incentive ROEs granted, at the federal level, to transmission projects accessing wind energy generation inside the Southwest Power Pool region.

The chairman provided a written presentation for the subcommittee's review. It included an excerpt from FERC Commissioner Kelly's comments in her dissent to FERC Order No. 697-A:

"...the most compelling case for incentive ROEs are new projects that present special risks or challenges, not routine investments made in the ordinary course."

The subcommittee then discussed the need to create a distinction between what is considered routine investments versus investments deserving financial incentives intended to promote RTP development in Arizona.

5) Discussion of RTP Working Definition

Senator Harry Reid's Bill (S. 2076 "Clean Renewable Energy and Economic Development Incentives Act"; 9/20/2007) was discussed as this bill provides a potential RTP definition being considered at the Congressional level. A "renewable energy trunkline" is defined in the bill as a transmission facility designed to access remotely located Renewable Energy Zones, foster additional renewable energy generation development, has at least one executed renewable energy generation interconnection

agreement, and 75% of the line is to be used by renewable energy resources in order to qualify for federal loan guarantees.

The subcommittee did not reach consensus on a definition of an RTP.

6) Interim Report: Outline Contents

The subcommittee discussed the Interim Report that is due by 4/1/2009. The chairman proposed the contents of the Interim Report to include the following:

1. Introduction
2. Executive Summary
3. Summary of Subcommittee Work to date
4. Proposed Work Plan for May through August 2009
5. Appendices
 - a. Agendas
 - b. Minutes
 - c. Presentations
 - d. Rosters

The subcommittee subsequently approved the Interim Report outline with the exception of item (4) as a proposed work plan should be developed by the subcommittee after the conclusion of the April Workshop(s).

7) Next Steps and Meeting Schedule

The chairman proposed a schedule to complete the Interim Report as follows:

1. 3/18/2009 Circulate draft for comments
2. 3/25/2009 Comment deadline
3. 3/27/2009 Circulate revised draft for comments
4. 4/1/2009 Issue Interim Report to the Chairmen of RTTF and SWAT

The subcommittee approved this schedule and agreed it allowed adequate time to prepare, circulate, and finalize the Interim Report by the final submittal deadline to the chairmen of both the RTTF and SWAT.

Project Finance Subcommittee Meeting No. 3:

To be Determined following the April Workshop(s)

8) Adjourn: 1:12 PM

Exhibit 1

I have a couple of comments to the draft Minutes from the first meeting...as well as some thoughts about the definition of a Renewable Transmission Project.

Section 4 (b) (Scope) of the draft Minutes discusses the definition of a Renewable Transmission Project (RTP). There were several comments related to concern about each of the definitions that were laid out as part of the presentation...that fact should be clearly stated in the minutes. You did appropriately say that the general consensus was that further discussion of the definition was warranted - as it is. Several people pointed out issues related to any definition that required repeated "analysis after-the-fact" to see if a transmission project was still appropriately designated as an RTP - this would be a difficult situation since the future use of a project would not necessarily be controlled by the owners of the line due to Open Access Transmission Tariff requirements and the obligation of Transmission Providers to provide non-discriminatory open access to their transmission systems. This would make any economic analysis of a project difficult and uncertain.

Also in the draft Minutes, I don't believe that there was any consensus of the statement that: "There is clearly a need to create measurable protocols that establish initial and ongoing RTP status." and as such, it should be removed from the Minutes.

Generally, I don't think the definition needs to be so explicit. Recall that the purpose of the Order is aimed at the development of transmission "...that will support the growth of renewables in Arizona". Our overarching goal here should be to provide ways to support the building of transmission projects that will support that growth in renewables in Arizona...because of that goal, we should make the definition fit that goal - not constrain it.

Having said that, in order to create further discussion on the subject, here is a possible proposed definition for renewable transmission:

Renewable Transmission Project" (RTP) shall be defined as a transmission project that is either new transmission line or group of lines or an upgrade of an existing line or group of lines that fulfills at least one of the following:

- Provides additional direct transmission infrastructure access to renewable resource areas within the state of Arizona that have either already identified renewable energy resources or those likely to contain renewable energy resources*
- Provides additional delivery of a renewable resource located and/or gathered in the State of Arizona to a load center (Note: these projects may not directly connect the renewable resources to the transmission system but are needed to move the resource to the load centers [where such load centers are either within Arizona or outside of Arizona])*

* Each of these requirements must show that the potential amount of renewable resources available to utilize increases transmission capacity is at least as great as the expected increased capacity to move resources on the RTP - through queues/ NREL data/Studies/Etc. This classification is determined up front and is not dependent on future actual use of the line(s)

Appendix E

**Presentation Provided at
ACC Workshop No. 1**

April 20, 2009



Review of RTTF FINANCE SUBCOMMITTEE Activity



Workshop on Transmission to Support Renewable Energy Development

April 20, 2009

Chairman: Tom Wray

Finance Subcommittee Purpose

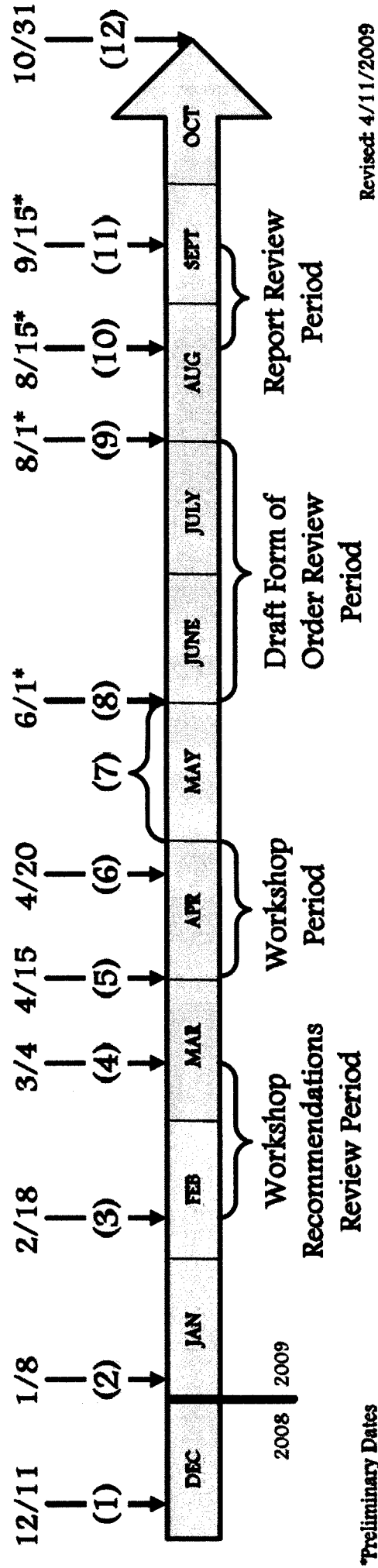
- The RTTF created the Finance Subcommittee on 1/8/2009 in response to ACC Order No. 70635 (12/11/2008).
- Primary Objective: Provide the RTTF with recommendations for financing methodologies for renewable transmission projects (RTP) in Arizona.
- Provide information and support for the utilities responsible for the April 20th Workshop.

Finance Subcommittee Activities

- Meeting No. 1 (2~18~2009)
- Meeting No. 2 (3~4~2009)
- Interim Report
- April 20th Workshop Support
- Follow-up activities after the Workshop
- Re-assess work plan for the summer and issue a Final Report by September 2009

RTTF Finance Subcommittee: Timeline

- (1) 12/11/08 ACC issues Order No. 70635
- (2) 1/8/09 RTTF creates subcommittees: a) AARTIS b) Project Finance
- (3) 2/18/09 Meeting No. 1: Define Scope; Schedule; RTP Definition; Deliverables
- (4) 3/4/09 Meeting No. 2: Finalize Workshop Recommendations
- (5) 4/15/09 Submit Interim Report to RTTF
- (6) 4/20/09 Workshop Date
- (7) 5/09 Based on Workshop, RTTF reviews subcommittee scope of investigation
- (8) 6/1/09* Meeting No. 3: Discuss and develop Draft Form of Order; initiate review
- (9) 8/1/09* Meeting No. 4: Conclude Review of Draft Form of Order
- (10) 8/15/09* Issue Draft Report to Subcommittee and initiate review
- (11) 9/15/09* Issue Final Report to RTTF with Draft Form of Order
- (12) 10/31/09 Utilities respond to order No. 70635: "...funding mechanisms... shall be filed with the Commission no later than October 31, 2009..."



*Preliminary Dates

Revised: 4/11/2009



Meeting No. 1 (2/18/2009)

- Discussion Items
 - ★ Overview of SWAT and RTTF
 - ★ 5th BTA, ACC Order No. 70635
 - ★ Subcommittee's Scope and Schedule
 - ★ Timeline for Activities
 - ★ Potential Working Definitions for RTPs
 - ★ Possible Subcommittee Deliverables

..... **Meeting No. 2 (3/4/2009)**

- Discussion Items
 - ★ Cost Recovery Methodologies for RTP Investments
 - ★ Allocation of Base and Incentive Returns on Equity
 - ★ Developing RTPs – General Discussion
 - ★ Subscription Methodologies for Developing RTPs
 - ★ Capacity Definitions for Orders
 - ★ Transmission Working Definitions and Relevant Orders
 - ★ Potential FERC Policies and Developments
 - ★ Recent FERC Developments
 - ★ Legislative Developments



Renewable Transmission Task Force

Project Finance Subcommittee

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Interim Report

- Provided to the Chairmen of SWAT and RTTF
- Filed in the ACC Open Docket that is intended to gather information regarding renewable transmission issues
- Report includes the following parts:
 - ★ Introduction/Executive Summary
 - ★ Subcommittee Work To-Date
 - ★ Areas of Inquiry
 - ★ Appendices

.....
Subcommittee Contact Information

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Cindy Bailey

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Tom Wray

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SouthWestern Power

SouthWestern: (602) 808-2004

Main Phone:



Renewable Transmission Task Force

Project Finance Subcommittee

Appendix F

Agendas for ACC Workshops

April 20, 2009

June 5, 2009

Agenda

Workshop on Transmission to Support Renewable Energy Development ACC Fifth Biennial Transmission Assessment Commission Decision 70635

**Arizona Corporation Commission Hearing Room
1200 W. Washington Street Phoenix, AZ 85007
April 20, 2009, 9:30 AM – 5:00 PM**

- Welcome (Brian Cole - APS)
- Overview of ACC BTA Order and planned utility response process (Brian Cole - APS)
- Overall Utility Planning Process and Associated Transmission Issues (Brad Albert - APS)
- Overview of National, Regional and Sub Regional Transmission Planning Organizations (Rob Kondziolka - SRP)
- Renewable Transmission Task Force (RTTF) Arizona Renewable Resource and Transmission Identification Subcommittee (ARRTIS) Update - (Amanda Ormond - Ormond Group LLC)
- RTTF Finance Subcommittee Update - (Tom Wray – Southwestern Power Group)
- Overview of Federal and State Regulatory Process for Siting of Transmission Lines & Other State Transmission Models (Ed Beck - TEP)
- Lunch Break
- Comments - APS/SRP/SWTC/TEP
- Comments - Workshop Participants/Other interested Parties
- Open Discussion - Policy Issues Associated with Transmission Development for Renewables
 - Ways in which new transmission projects can be identified
 - Ways in which transmission projects can be approved for construction
 - Ways in which transmission projects can be financed
- Action Item Summary & Next Steps



Leland R. Snook
Director
State Regulation & Pricing

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Mail Station 9708
PO Box 53999
Phoenix, Arizona 85072-3999

May 29, 2009

Docket Control
Arizona Corporation Commission
1200 W. Washington Street
Phoenix, Arizona 85007

RE: Arizona Public Service Notice of Joint Workshop on Renewable Transmission
Docket No. E-00000D-07-0376

On May 12, 2009, Arizona Public Service ("APS") provided notice that a joint workshop on renewable transmission has been scheduled for June 5, 2009. Attached please find the agenda for the second joint workshop to address renewable related transmission issues. The workshop has been scheduled on June 5, 2009 beginning at 9:30 a.m. in the Arizona Corporation Commission's hearing room at 1200 West Washington Street, Phoenix, AZ 85007.

If you have any questions please contact Jeff Johnson at 602-250-2661.

Sincerely,

A handwritten signature in black ink, appearing to read "Leland R. Snook", is written over a horizontal line.

Leland R. Snook

Attachment

LS/dst

Cc: Prem Bahl
Steve Olea
Interested Parties

Agenda

ACC Biennial Transmission Assessment (BTA) Order 70635 2nd Workshop on Transmission to Support Renewable Energy Development

**Friday, June 5th 2009
(9:30AM – 5:00PM)**

**Arizona Corporation Commission
1200 W. Washington
Phoenix, AZ 85007**

ACC Listen Line - (602) 542-0222

- 1. Welcome and Introductions (Brian Cole – APS & Amanda Ormond – Ormond Group LLC)**
- 2. Overview of First Workshop (Brian Cole)**

**Note: Presentations from the first workshop can be obtained by going to:
<http://www.cc.state.az.us/divisions/utilities/electric/Biennial.asp> OR
<http://www.westconnect.com>**

- 3. Updates to: a) Arizona Renewable Resource and Transmission Identification Subcommittee (ARRTIS)/ b) Renewable Transmission Task Force (RTTF)/ c) RTTF Finance Subcommittee/ d) Utility Analysis Update**
 - a. RTTF ARRTIS Update (Amanda Ormond/Greg Bernosky – APS)**
 - b. RTTF Update (John Lucas – APS)**
 - c. RTTF Finance Update (Tom Wray – Southwestern Power Group)**
 - d. Overall Utility Analysis Update (Brian Cole)**
- 4. Transmission Cost Recovery Primer (Phil Dion – TEP)**
- 5. Interconnection Process Review (Ron Belval - TEP/John Lucas - APS/ Rob Kondziolka - SRP/ Jim Rein – SWTC)**
- 6. Utility Collective Thoughts on Policy Issues (Brad Albert – APS)**

7. Lunch
8. Discussion of the Arizona portion of the proposed Palo Verde – Devers #2 500kV line
9. Open Discussion (Amanda Ormond – Moderator)
 - a. Ways to Finance
 - b. Ways to Approve for Construction
 - c. Ways to Identify Projects
10. Action Item Summary and Next Steps

Appendix G

Meeting No. 3
June 16, 2009

i. Agenda

Finance Subcommittee

Meeting No. 3

AGENDA

Tuesday, June 16, 2009
1:30 PM – 5:00 PM

SRP PERA Club
1 E. Continental Drive, Tempe, AZ 85281-1053
Big Horn Terrance Conference Room

Conference Line Dial: 1-866-539-1119 Room #: *7193765* (must dial star keys)

- 1) Welcome and Introductions**
- 2) Discuss Future Meeting Minutes**
- 3) Review of Past Subcommittee and Workshop Activities**
- 4) Review Revised Timeline and Subcommittee Work Products**
- 5) Financing Renewable Transmission Projects (RTPs) in Arizona: Possible Presentations from Meeting Participants (e.g. Utilities, ACC Staff, Merchants etc.)**
- 6) Discuss Working Definitions of RTPs in Arizona**
- 7) Work Group for Drafting Form of Order**
 - a) Chairperson**
 - b) Members**
 - c) Schedule**
 - d) Contents of Order**
- 8) Schedule Meeting No. 4 (early August)**
- 9) Adjourn**

Appendix G

Meeting No. 3
June 16, 2009

ii. Roster

**SWAT Renewable Energy Transmission Task Force
Finance Subcommittee
Sign-in Sheet**

Initial	Name	Organization	Phone	E-mail
<i>BA</i>	Albert, Brad	APS	(602) 250-2347	bradley.albert@aps.com
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	Bagley, Ken	Harcuvar Transmission Project	(623) 748-8989	kabagley@cox.net
<i>CB</i>	Bailey, Cindy	SouthWestern Power Group	(602) 808-2004	cbailey@southwesternpower.com
	Bantu, Ravi	RES Americas Inc	(303) 579-6345	ravi.bantu@res-americas.com
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<i>BB</i>	Brandt, Jana	SRP	(602) 236-5028	jana.brandt@srpnet.com
<i>BB</i>	Charters, James H.	Western States Energy Solutions	(623) 572-7972	J_Charters@msn.com
<i>BB</i>	Cobb, Antoine	APS	(602) 250-2547	antoine.cobb@aps.com
<i>BB</i>	Cole, Brian	APS	602 250-4332	Brian.Cole@aps.com
	Couture, David	TEP		dcouture@tep.com
	Diven, James	RES Americas Inc		james.diven@res-americas.com
	Estrada, Giancarlo	Arizona Corporation Commission	(602) 542-3622	gestrada@azcc.gov
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	Getts, David	SouthWestern Power Group/SunZia	(602) 808-2099	Dgetts@southwesternpower.com
	Grant, Kent	TEP		kgrant@tep.com
	Groves, Jack	POWER Engineers	(505) 898-8964	jgroves@powereng.com
	Henderson, Taylor	RES Americas Inc		taylor.henderson@res-americas.com
<i>BB</i>	Johnson, Jeffrey	<i>APS</i>	602-250-2661	jeffrey.johnson@aps.com
	Kondziolka, Robert	SRP	(602) 236-0971	rekondzi@srpnet.com
	Krzykos, Peter	APS	(602) 250-1649	peter.krzykos@aps.com
<i>BB</i>	Loehr, Jeff	SRP Transmission System Planning	(602) 236-0972	jeff.loehr@srpnet.com
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	McCormick, Barbara	TEP		bmccormick@tep.com
	McMichael, Richard			richardmcmichael@bp.com
	Ormond, Amanda	Interwest		asormond@msn.com
	Ramanathan, Shalini	RES Americas Inc		shalini.ramanathan@res-americas.com
	Rasmussen, Brian	Bright Source Energy	(602) 357-8016	brasmussen@brightsourceenergy.com

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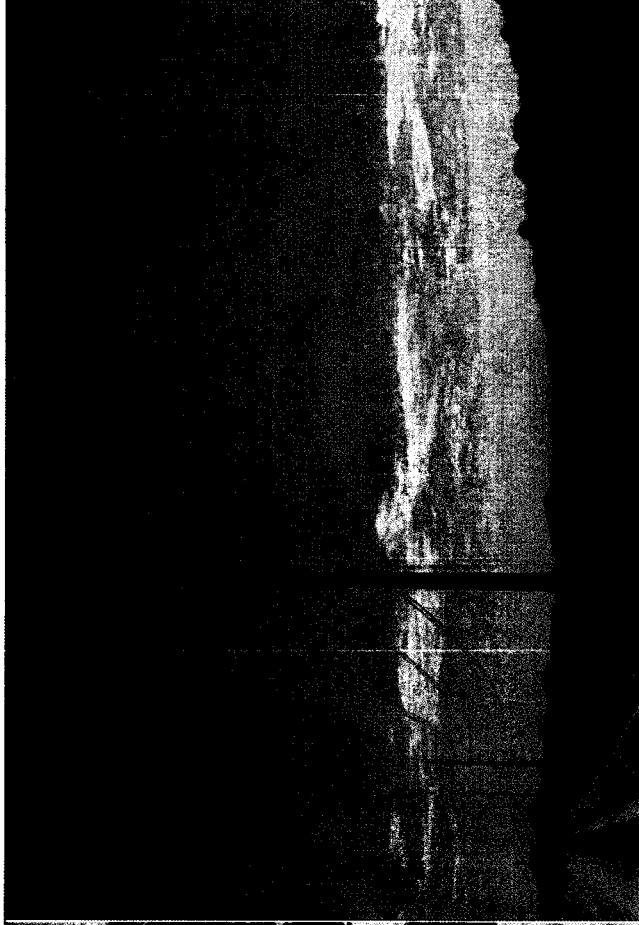
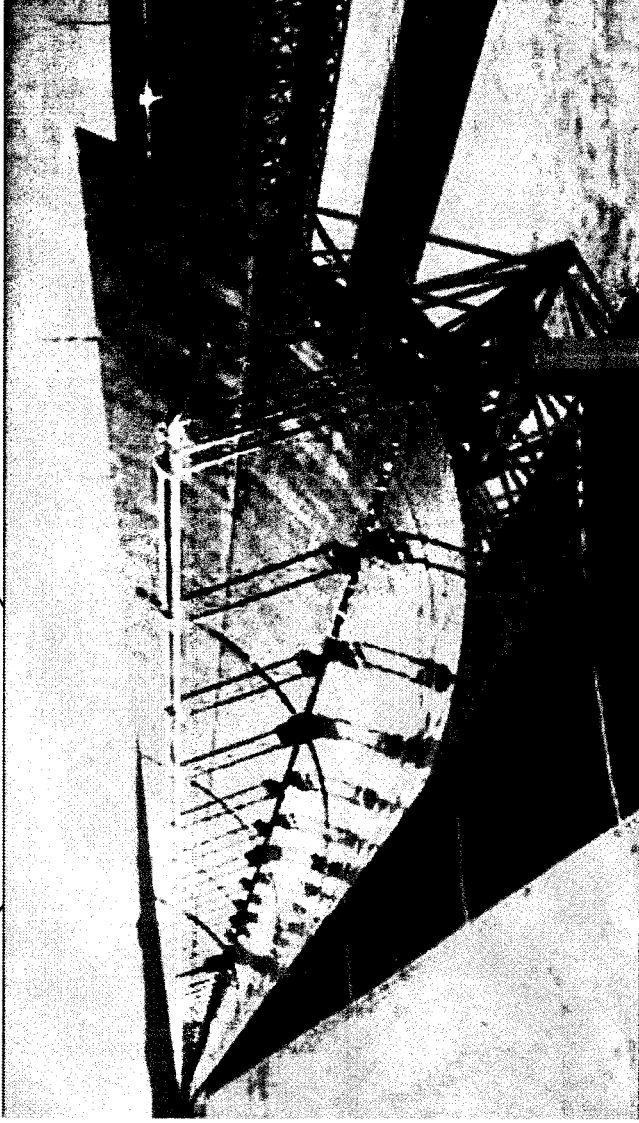
Appendix G

Meeting No. 3
June 16, 2009

iii. Subcommittee Presentation



RTTF FINANCE SUBCOMMITTEE



Meeting No. 3
June 16, 2009
Chairman: Tom Wray

Welcome and Introductions

- Please state your name and organization
- Sign-In Sheet
 - Please initial next to your name. If you are not listed, please fill in your contact information

Review of Agenda

- Discuss Future Meeting Minutes
- Review Past Subcommittee and Workshop Activities
- Review Revised Timeline and Subcommittee Work Products
- Discuss Financing Renewable Transmission Projects (RTPs) in Arizona: Presentations from Meeting Participants
- Discuss Working Definitions of RTPs in Arizona
- Work Group for Drafting Form of Order
- Schedule Meeting No. 4
- Adjourn

Subcommittee Objective

Excerpt from ACC Decision No. 70635

(12/11/08):

“IT IS FURTHER ORDERED that each Commission-regulated utility, either alone or in cooperation with other interested utilities, shall develop plans to identify... funding mechanisms to construct the top three renewable transmission projects. These plans and mechanisms shall be filed with the Commission no later than October 31, 2009...”

Appendix G

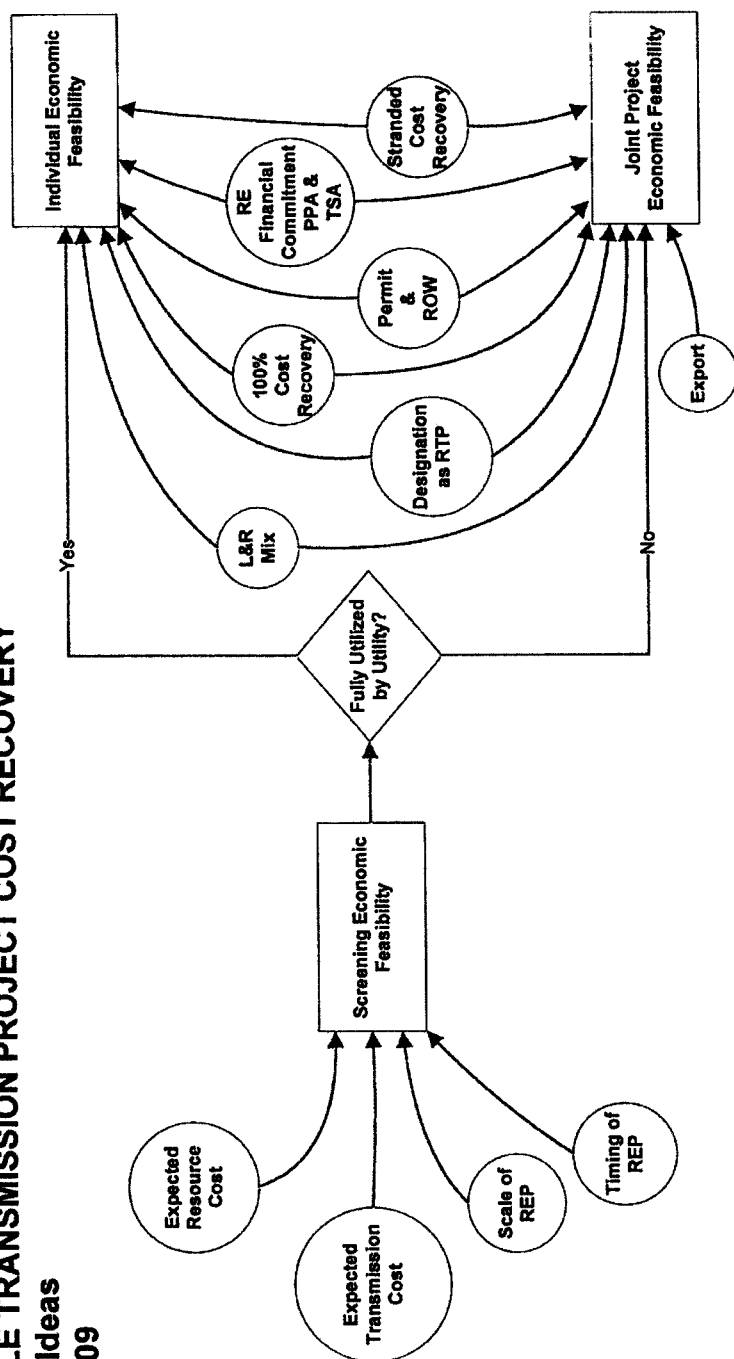
Meeting No. 3
June 16, 2009

v. RTP Cost Recovery Handout from TEP

RENEWABLE TRANSMISSION PROJECT COST RECOVERY

Issues and Ideas

June 13, 2009



Key Issues:

1. Definition of Renewable Transmission Project (RTP)
 - a. Certification as RTP should not be based on numerical RE minimum.
 - b. Future use such as interconnection of fossil unit should not affect certification as long as project supported development of RE project.
 - c. Multi-use is important to maintain financial viability.
2. Cost Recovery
 - a. 100 %
 - b. Stranded Cost Recovery
 - c. Incentives
 - c. RE Commitments (PPA, TSA, etc)
3. Streamlined Process
 - a. Permits and ROW
4. RE Projects should be evaluated on a case-by-case basis
 - a. Economic Feasibility Screen (Based on RE and T cost)
 - b. Individual TP versus Joint Project (Export Capability)
5. Scale and Timing of Projects is Critical
 - a. Ability to serve existing and forecasted utility load
 - b. Financial obligations for existing and committed resources.

Appendix H

Memorandum of Proposed Findings for Future ACC Orders re Renewable Transmission

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MEMORANDUM

TO: RTTF Finance Subcommittee
FROM: RTTF Finance Subcommittee – Attorney Working Group
DATE: August 4, 2009
RE: Proposed Findings for Future ACC Orders re Renewable Transmission

The Attorney Working Group of the Renewable Transmission Finance Subcommittee¹ was asked to prepare proposed findings related to renewable transmission projects. The purpose was to develop language for inclusion in the RTTF Finance Subcommittee's report to the Arizona Corporation Commission ("ACC" or "Commission"), along the lines of the Subcommittee Chairman's "Proposed Form of Order." The intent is that the ACC include the proposed findings in the Commission Order(s) resulting from the October 31, 2009, filings that the Commission-regulated utilities are required to make pursuant to Commission Decision No. 70635. (This Decision was a result of the 2008 Biennial Transmission Assessment ("BTA") process, which is undertaken every two years pursuant to A.R.S. § 40-360.02.)

Proposed Findings of Fact

- In addition to the Commission's 2012 BTA process, each Commission-regulated utility will file a Renewable Transmission Action Plan ("RTAP"), concurrent with the filing of its Ten Year Plan. The RTAP will describe with specificity the Renewable Transmission Projects ("RTPs") that the utility is proposing. Contemporaneous with the 2012 BTA process, the ACC will assess the need and frequency for subsequent RTAP filings.
- The RTAP will include the following information:

¹ The following individuals participated in the discussions that lead to these proposed findings: Joseph D'Aguanno, APS, Brad Albert, APS, Ron Belval, TEP, Jana Brandt, SRP, Brian Cole, APS, Michelle Livengood, when at TEP, Brenda Pries, TEP, Deb Scott, APS, Ric Tobin, RWT II, LLC, Amy Welander, TEP, Laurie Woodall, KR Saline. Bruce Evans, SWTransco, Jim Rein, SWTransco (who offered several edits), and Rob Taylor, SRP, were included on the distribution of all Work Group materials and electronic messages. The Work Group held two meetings the first on 9 July and the second on 24 July. Three drafts of the findings were circulated. This version includes edits to the third or 7-24 draft.

1. Identification of RTPs, which includes the acquisition of transmission capacity, such as, but not limited to, (i) new transmission line(s), (ii) upgrade(s) of existing line(s), or (iii) the development of transmission project(s) previously identified by the utility (whether conceptual, planned, committed and/or existing), all of which provide either:

- Additional direct transmission infrastructure providing access to areas within the state of Arizona that have renewable energy resources, as defined by the Commission's Renewable Energy Standard Rules (A.A.C. R14-2- 1801, *et seq.*), or are likely to have renewable energy resources; or
- Additional transmission facilities that enable renewable resources to be delivered to load centers.

[EARLIER ALTERNATIVE] to #1 lines 30-40:

1. Identification of RTPs, which includes the acquisition of additional transmission capacity, that are new transmission line(s), an upgrade of existing line(s), or the earlier development of a transmission project previously identified by the utility that provide either:

- Additional direct transmission infrastructure providing access to areas within the state of Arizona that have renewable energy resources, as defined by the Commission's Renewable Energy Standard Rules (A.A.C. R14-2- 1801, *et seq.*), or are likely to have renewable energy resources; or

Comment [rwt1]: These changes to our earlier version of #1 lines 44-53 below broadened the definition of Renewable Transmission Project ("RTP") to include transmission projects that are currently scheduled in the utility's 10 Year Plans. The original language was an attempt to allow 10-year plan projects to be considered RTPs while also showing the difference between an RTP and a "business as usual" project by showing an advancement of the in-service date from that originally proposed in the 10 Year Plan. A majority of the Work Group did not have a problem with the broader definition proposed; however, we believe that the Committee and ultimately the Commission may require some differentiation between a RTP and other "business-as- usual" projects.

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Comment [rwt2]: Earlier version of #1 lines 30-40 above, included for continued discussion.

- 59 • Additional transmission facilities that enable renewable resources to be
60 delivered to load centers.
61
- 62 2. Description of how each RTP is expected to advance renewable resource
63 deployment within the State of Arizona.
- 64 3. Development approach and schedule for the proposed RTPs, including plans for
65 solicitation of other participants and/or commercial interests, and pre-conditions
66 for moving beyond initial development activities to actual construction.
- 67 4. Expected costs of the RTPs, including an assessment of the range of bill impacts
68 for retail customers for each project, and a range of the project costs for each
69 phase of the development approach set forth by the utility in the RTAP.
- 70 5. Cost recovery, including any special regulatory treatment that will be sought from
71 the Federal Energy Regulatory Commission ("FERC") or other regulatory
72 agencies.
- 73 6. Status report on RTPs identified in previous RTAP.
74
- 75 • The ACC shall review and approve RTP's within a utility's RTAP. An RTAP that
76 provides potential benefits to Arizona electric consumers that outweigh the potential
77 costs shall be deemed to be in the public interest and shall be approved.
78
- 79 • Once a project has been designated an RTP by the ACC, then it shall maintain that
80 status unless it is shown by clear and convincing evidence, presented during a

81 hearing, that the RTP does not and will not provide the capability to advance
82 renewable resource development in the State of Arizona.

- 83
- 84 • The ACC may pre-approve cost recovery for a utility to enter into a long-term
85 transmission service agreement ("TSA") in order to facilitate the construction of
86 transmission facilities where the transmission line is not owned by the utility (to
87 allow for the purchase of transmission capacity).

- 88
- 89 • Because network transmission facilities are under the jurisdiction of FERC, the utility
90 will initially seek any necessary cost recovery and special regulatory treatment, if
91 applicable, of ACC-approved RTAP projects from FERC. Special regulatory
92 treatment available from FERC may include, but is not limited to, enhanced return-
93 on-equity, Construction Work in Progress ("CWIP") in rates, and assurances of cost-
94 recovery should the project be prudently discontinued.

- 95
- 96 • To improve a utility's ability to obtain financing for the RTPs, timely recovery of
97 transmission costs in retail rates shall be provided by a transmission cost adjuster
98 mechanism, transmission cost rider or some other ACC-approved mechanism that
99 provides for recovery of FERC-accepted rates. A cost recovery mechanism would be
100 adopted in a utility's rate case proceeding.

- 101
- 102 • Should FERC fail to fully approve cost recovery or provide special regulatory
103 treatment for ACC-approved RTPs, or if the utility proposes an RTP that does not

fall within FERC jurisdiction (such as a radial line that is not a network facility), a utility may seek cost-recovery and/or special regulatory treatment from the ACC, such as:

- Timely cost recovery for prudently incurred developmental costs, including permitting; preliminary engineering and environmental investigation costs; technical study costs; survey and mapping costs; preliminary right-of-way acquisition costs; and other project formation costs, as well as for prudent costs of construction of RTP.
- A utility may be entitled to receive an enhanced return on equity incentive for RTPs from the ACC.
- A utility may be entitled to CWIP in rates.
- In the event that a specific RTP project is no longer reasonable due to a change in circumstances, the utility's prudent costs will be recovered.

Utilities that agree to proceed with ACC-approved RTPs shall not be obligated to provide ancillary service, including integration and/or regulation services, to compensate for the intermittent nature of wind and solar renewable resources.

Comment [rwt3]: Included for discussion on whether this important issue should be included in proposed findings

Appendix I

Meeting No. 4
August 11, 2009

i. Agenda

Southwest Area Transmission Study Group - Renewable Energy Transmission Task Force

Finance Subcommittee

Meeting No. 4

AGENDA

Tuesday, August 11, 2009
1:00 PM – 5:00 PM

SRP PERA Club
1 E. Continental Drive, Tempe, AZ 85281-1053

Conference Line Dial: 1-866-539-1119 Room #: *7193765* (must dial star keys)

- 1) Welcome and Introductions**
- 2) Overview of the Work Group's Memorandum**
- 3) Work Group Tasking**
- 4) Discuss the policy issues left open in the Memorandum**
- 5) Input from Finance Subcommittee participants**
- 6) Next Steps**
- 7) Adjourn**

Appendix I

Meeting No. 4
August 11, 2009

ii. Roster

SWAT Renewable Energy Transmission Task Force
Finance Subcommittee
 Sign-in Sheet

Initial	Name	Organization	Phone	E-mail
BSA	Albert, Brad	APS	(602) 250-2347	bradley.albert@aps.com
	Amirali, Ali	Element Power		ali.amirali@elpower.com
SA	Atkins, Steve			Steve.Atkins@nau.edu
	Bagley, Ken	Harcuvar Transmission Project	(623) 748-8989	kabagley@cox.net
	Bahl, Prem K.		(602) 542-7269	pbahl@azcc.gov
CB	Bailey, Cindy	SouthWestern Power Group	(602) 808-2004	cbailey@southwesternpower.com
	Bantu, Ravi	RES Americas Inc	(303) 579-6345	ravi.bantu@res-americas.com
	Beck, Ed	TEP		ebeck@tep.com
Phone	Bernosky, Greg	APS		gregory.bernosky@aps.com
	Belval, Ron	TEP	(520) 745-3420	RBelval@tep.com
QB	Brandt, Jana	SRP	(602) 236-5028	jana.brandt@srpnet.com
	Charters, James H.	Western States Energy Solutions	(623) 572-7972	J.Charters@msn.com
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	Cole, Brian	APS	(602) 250-4332	Brian.Cole@aps.com
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	D'Aguanno, Joseph			joseph.daguanno@pinnaclewest.com
	Diven, James	RES Americas Inc		james.diven@res-americas.com
	Estrada, Giancarlo	Arizona Corporation Commission	(602) 542-3622	gestrada@azcc.gov
	Footte, Hilary	Horizon Wind Energy	(503) 535-1522	Hilary.Footte@horizonwind.com
	Getts, David	SouthWestern Power Group/SunZia	(602) 808-2099	Dgetts@southwesternpower.com
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	Groves, Jack	POWER Engineers	(505) 898-8964	igroves@powereng.com
	Henderson, Taylor	RES Americas Inc		taylor.henderson@res-americas.com
	Johnson, Jeffrey			jeffrey.johnson@aps.com
REK	Kondziolka, Robert	SRP	(602) 236-0971	rekondzi@srpnet.com
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	Mayes, Kristin	Arizona Corporation Commission		Kmayes@azcc.gov
	McCormick, Barbara	TEP		bmccormick@tep.com
	McMichael, Richard			richardmcmichael@bp.com
AO	Ormond, Amanda	Interwest / Western Grid Group		asomond@msn.com

**SWAT Renewable Energy Transmission Task Force
Finance Subcommittee
Sign-in Sheet**

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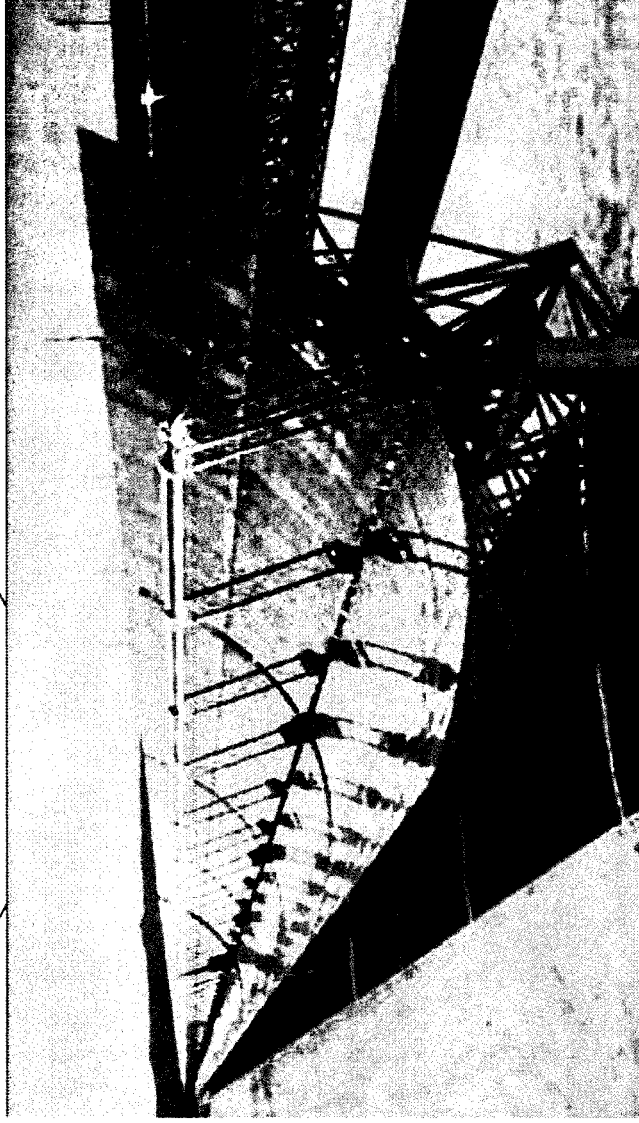
Appendix I

Meeting No. 4
August 11, 2009

iii. Presentation



RTTF FINANCE SUBCOMMITTEE



Meeting No. 4
August 11, 2009

Welcome and Introductions

- Please state your name and organization
- Sign-In Sheet
 - Please initial next to your name. If you are not listed, please fill in your contact information

■ Overview of Memorandum

RE: Proposed Findings for Future ACC Orders re Renewable Transmission

- Tasking
 - Define RTP
 - Detail ACC Method to Designate RTP
 - Form of Application and duration
 - Due Process to Revoke RTP Status
 - Identify Retail Rate Treatment
 - Establish Protocols for ACC Incentives

- Policy issues left open in Memorandum
 - “Business-as-usual” projects vs. RTPs
 - Ancillary services issue
 - Others?

■ Input from Finance Subcommittee participants

■ Next Steps

Ref: ACC Docket No. E-000000A-09-0066
Ref: ACC Docket No. E-000000A-09-0066